

THE UNIVERSITY OF WESTERN ONTARIO

COMBINED FINANCIAL STATEMENTS

APRIL 30, 2005

Financial Highlights

April 30, 2005

The University completed the year with revenues of \$713.3 million, expenses of \$668.9 million and an excess of revenues over expenses of \$44.4 million.

The operating results, together with the investment returns allocated to the external endowments (net of spending) of \$3.0 million and the receipt of \$36.9 million of endowed donations increased the University's net assets from \$229.5 million to \$314.0 million, a 36.8% increase over the prior year.

The changes in results are primarily due to increased Provincial government grants for undergraduate and graduate enrolment increases and facility renewal, departmental spending less than planned and positive equity market returns. The year ended April 30, 2005 is the second year of a four-year budget plan. In the remaining two years, we expect expenditures to increase as we achieve our staff and faculty recruitment targets and implement programs funded by new and incremental government grants.

The University's investments are recorded in the accounts at market value and returns are subject to market fluctuation. Western's portfolio earned a return of 6.6% for the year ending April 30, 2005. The recovery in the equity markets continued in 2005, although at a slower pace than in 2004 (when we earned a return of 19.5%). Investment returns for the year totaled \$25.9 million, reflected as \$22.9 million of investment returns in the Combined Statement of Operations (statement 2) and as a net increase of \$3.0 million to the Endowments in the Combined Statement of Changes in Net Assets (statement 3).

On a cash basis, research revenues declined from \$124.5 million in 2004 to \$100.4 million. The decrease is partly due to the cyclical nature of the Canada Foundation for Innovation cash flow process, and partly due to the timing of construction of one of our major research projects. Cash flows are expected to increase next year as we progress substantially on several major research initiatives.

Capital spending totaled \$62.9 million. The projects completed or underway are largely new construction, required to meet the need for increased space for growth in enrolments and to update research infrastructure. Funding for these projects include donations, research infrastructure grants, provincial government grants, operating funds and bank financing.

Endowments grew by \$40 million, up 22% from the previous fiscal year. Endowed donations to Foundation Western for the year totaled \$6.1 million.

Looking ahead to 2006, with the support of increased government funding, we anticipate increased enrolment, particularly at the graduate level with associated investments in faculty, staff, and university infrastructure.



Office of the President & Vice-Chancellor

The UNIVERSITY of WESTERN ONTARIO

Responsibility for Financial Reporting

The accompanying combined financial statements of The University of Western Ontario are the responsibility of the University administration and have been approved by the Board of Governors.

The financial statements have been prepared by the University administration in accordance with Canadian generally accepted accounting principles. Financial statements necessarily include amounts based on informed judgements and estimates, with appropriate consideration to materiality. The administration has determined such amounts on a reasonable basis to ensure that the combined financial statements present fairly the financial position of the University.

The University maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the University's assets are appropriately accounted for and adequately safeguarded.

The Board of Governors is responsible for ensuring that management fulfils 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. This Committee consists of eight members, none of whom are involved in the daily operations of the University. The Committee meets periodically with the administration, the internal auditor and 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 combined financial statements and the external auditors' report. The Committee reports its findings to the Board of Governors for consideration when approving the combined financial statements. The Committee also appoints annually the external auditors.

The combined financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Board of Governors. KPMG has full and free access to the Audit Committee.

Paul Davenport
President & Vice-Chancellor

Gitta Kulczycki
Vice-President - Administration

The University of Western Ontario

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AUDITORS' REPORT

To the Board of Governors of The University of Western Ontario

We have audited the combined statement of financial position of The University of Western Ontario as at April 30, 2005 and the combined statements of operations, changes in net assets, and cash flows for the year then ended. These combined financial statements are the responsibility of management. Our responsibility is to express an opinion on these combined 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 combined 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, changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

London, Canada

July 20, 2005

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Financial Position

Statement 1

As at April 30, 2005, with comparative amounts for 2004
(thousands of dollars)

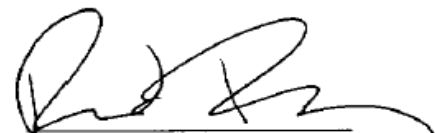
	2005 \$	2004 \$
Assets		
Cash	2,137	1,667
Accounts receivable	44,693	44,944
Inventories	4,679	5,083
Prepaid expenses	7,036	9,163
Investments [note 3]	485,610	399,869
Capital assets [note 4]	515,772	470,919
	<u>1,059,927</u>	<u>931,645</u>
Liabilities and deferred contributions		
Bank indebtedness [note 5]	5,580	6,879
Accounts payable and accrued liabilities	67,299	56,341
Deferred fees and income	30,681	27,721
Employee future benefits [note 6]	158,517	148,297
Debt [note 7]	129,714	124,962
Deferred contributions [note 8]	98,803	109,518
Deferred capital contributions [note 9]	255,362	228,475
	<u>745,956</u>	<u>702,193</u>
Net assets [Statement 3]	<u>313,971</u>	<u>229,452</u>
	<u>1,059,927</u>	<u>931,645</u>

See accompanying notes to the combined financial statements.

Commitments, contingencies and subsequent events [\[note 19\]](#).

Approved on behalf of the Board of Governors:


D. McDougall
Chair, Board of Governors


R. Ivey
Chair, Audit Committee

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Operations

Statement 2

For the year ended April 30, 2005, with comparative amounts for 2004
(thousands of dollars)

	2005 \$	2004 \$
Revenues		
Government grants for general operations	173,402	162,166
Restricted government grants and other grants and contracts	153,952	133,497
Student fees	197,164	191,129
Sales and services	120,200	114,731
Donations [note 10]	17,679	17,411
Recoverable salaries and benefits	12,405	11,426
Investment returns [note 3(b)]	22,888	37,851
Other revenues	15,582	12,142
	<u>713,272</u>	<u>680,353</u>
Expenses		
Salaries and benefits	403,595	374,204
Operating costs	102,341	94,698
Amortization of capital assets	46,863	44,599
Scholarships, fellowships and bursaries	44,358	43,561
Cost of sales and services	33,361	32,272
Taxes and utilities	19,282	17,950
Repairs and maintenance	12,364	11,106
Interest	6,739	6,285
	<u>668,903</u>	<u>624,675</u>
Excess of revenues over expenses	<u>44,369</u>	<u>55,678</u>

See accompanying notes to the combined financial statements.

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Changes in Net Assets

Statement 3

As at April 30, 2005, with comparative amounts for 2004
(thousands of dollars)

	2005					2004
	Unrestricted [note 11]	Internally Restricted [note 12]	Investment in Capital Assets [note 13]	Endowments [note 14]	Total	Total
	\$	\$	\$	\$	\$	\$
Net assets, beginning of year	(143,853)	77,067	117,482	178,756	229,452	143,642
Excess of revenues over expenses	44,369	-	-	-	44,369	55,678
Change in internally restricted net assets	(36,537)	36,537	-	-	-	-
Change in investment in capital assets [note 13]	(12,935)	-	13,214	-	279	266
Transfer to internally endowed	(779)	-	-	779	-	-
Allocation of internally endowed returns	573	-	-	(573)	-	-
Investment returns allocated to external endowments [note 3(b)]	-	-	-	11,394	11,394	24,839
Allocation for spending from accumulated reinvestment returns [note 3(b)]	-	-	-	(8,410)	(8,410)	(8,779)
Endowment contributions [note 10]	-	-	-	36,887	36,887	13,806
Net assets, end of year	<u>(149,162)</u>	<u>113,604</u>	<u>130,696</u>	<u>218,833</u>	<u>313,971</u>	<u>229,452</u>

See accompanying notes to the combined financial statements.

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Cash Flows

Statement 4

For the year ended April 30, 2005, with comparative amounts for 2004
(thousands of dollars)

	2005 \$	2004 \$
Operating activities		
Excess of revenues over expenses	44,369	55,678
Add/(deduct) non-cash items		
Amortization of capital assets	46,863	44,599
Amortization of deferred capital contributions	(20,154)	(18,896)
Change in unrealized investment gains	(5,389)	(36,604)
Employee future benefits	10,220	8,142
Net change in non-cash working capital [note 17]	16,700	(26,127)
Cash provided by operating activities	92,609	26,792
Investing and financing activities		
Net change in investments	(80,352)	(29,379)
Purchase of capital assets	(91,438)	(95,067)
Receipt of deferred capital contributions	47,041	29,606
Net change in deferred contributions	(10,715)	26,295
Change in capitalized income	11,394	24,839
Allocation of spending from endowment	(8,410)	(8,779)
Repayment of debt	(10,217)	(4,261)
Receipt of debt	14,970	18,990
Endowment contributions	36,887	13,806
Cash used in investing and financing activities	(90,840)	(23,950)
Net increase in cash	1,769	2,842
Cash position, beginning of year	(5,212)	(8,054)
Cash position, end of year	(3,443)	(5,212)
Represented by:		
Cash	2,137	1,667
Bank indebtedness	(5,580)	(6,879)
	(3,443)	(5,212)

See accompanying notes to the combined financial statements.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

1. DESCRIPTION

The University of Western Ontario (The University) operates under the authority of The University of Western Ontario Act, 1982. The University is dedicated to the advancement of learning through teaching and research and to the discovery and application of knowledge. The University is a registered charity and, under the provisions of section 149 of the Income Tax Act, is exempt from paying income taxes.

The combined financial statements of The University contain the accounts of The University and organizations that The University controls, including: the London Museum of Archaeology, Ivey Management Services, Richard Ivey School of Business Foundation, Richard Ivey School of Business (Asia) Limited, The University of Western Ontario Research & Development Park, Windermere Manor Ltd., 6027334 Canada Inc. (Newco), The University of Western Ontario Research & Development Park (Sarnia – Lambton Campus), The Siebens - Drake Research Institute and related foundations in which The University has an economic interest, including: Foundation Western, and The University of Western Ontario Foundation Inc.

These financial statements do not include the accounts of three colleges that are affiliated with, but not controlled by The University (Brescia University College, King's University College at the University of Western Ontario and Huron University College), or the net assets of the Pension Plans of the Academic Staff and Administrative Staff of The University and the Retirement Income Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual amounts could differ from those estimates.

A summary of significant accounting policies is as follows:

(a) Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants.

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of the year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in the subsequent year.

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.

Externally restricted contributions, other than endowment contributions, are deferred and recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred, and when expended, are amortized into revenue, at a rate corresponding with the amortization rate for the related capital assets.

Endowment contributions, having externally or internally imposed restrictions requiring that the principal be maintained intact, are recognized as direct increases in endowment net assets.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005

(thousands of dollars)

Gifts of capital assets are recorded at fair market value at the date of receipt and the related contributions are amortized to operations on the same basis as the related capital asset. Contributions of collection items are recorded at fair market value at the date of the receipt and as a direct increase to endowed net assets.

Pledges are recorded as revenue on a cash basis, due to uncertainty of collection, and accordingly, pledges outstanding and not received at the year end are not recorded as an asset.

Student fees are recognized as revenue when courses and seminars are held. Activity fees are included in student fees. Sales and services revenue is recognized at point of sale or when the service has been provided.

(b) Inventories

Inventories are recorded at the lower of cost and net realizable value.

(c) Investments

Investments, other than strip bonds, are recorded in the accounts at market value. Unrealized gains/(losses) are included in investment returns. Strip bonds are recorded at cost plus accrued interest at their effective yield.

Investment returns include interest, dividends, realized and unrealized gains and losses.

Unrestricted investment returns is recognized as revenue in the period it is earned. Externally restricted investment returns are recognized as revenue when the related expenses are incurred. Investment returns on internally restricted endowments are recorded as a transfer from unrestricted to endowments in the statement of changes in net assets.

Investment returns on endowments are recorded in the statement of operations when this revenue is available for spending, at the discretion of The University.

The University protects the capital value of the endowments by limiting the amount of revenue made available for spending and requiring the reinvestment of this revenue, based on the anticipated net long-term rate of return on investments of 5%. In any particular year, should investment returns be insufficient to fund the amount to be made available for spending, amounts are transferred from the accumulated reinvested returns. For individual endowment funds without sufficient accumulated reinvestment returns, temporary encroachment on endowed capital is permitted to support the desired level of spending. This amount is expected to be recovered by future net investment returns.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005

(thousands of dollars)

(d) Capital assets

Purchased capital assets, including works of art, are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful life for buildings and library books, and on a declining balance basis for all other capital assets.

Amortization rates are generally as follows:

Buildings	40 Years
Roads, parking lots and infrastructure	10 %
Computer equipment	30 %
Equipment and furnishings	20 %
Library books	5 years
Works of art	are not amortized.

Buildings include construction in progress. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

(e) Employee future benefits

i) Non-pension plans:

The University provides medical, dental and life insurance benefits to eligible employees. The University accrues for these obligations, with the cost of these benefits being actuarially determined using the projected benefit method pro-rated on service using best estimates of salary escalation, retirement ages of employees and expected health care costs. Differences arising from plan amendments, changes in assumptions and actuarial gains and losses are recognized in income over the expected average remaining service life of employees.

ii) Pension plans and other retirement income funds:

The University sponsors pension plans for its faculty and staff. The benefits provided under the plans are primarily defined contribution. There is no past service liability in respect of either of these plans. Contributions to defined contribution plans are expensed as incurred.

For faculty members who attained the age of 45 on July 1, 1970 (the date the faculty plan was changed to provide defined contribution benefits) a minimum annual pension income was guaranteed based on a defined benefit formula. For staff members who were hired prior to May 1, 1974 (the date the staff plan was amended to provide defined contribution benefits) a minimum annual pension income was guaranteed based on a defined benefit formula. The costs of these guarantee formulas are actuarially determined. The existing surplus in these plans is not recorded in the combined financial statements.

In October 2000, The University established the Retirement Income Funds Program to provide periodic income payments to former members of the The University's pension plans who choose to enroll. The University's obligations are solely related to the administration of these programs. Former members allocate, at their own discretion, all or a portion of their entitlements under The University's pension plans to either a Registered Retirement Income Fund (RRIF), a Life Income Fund (LIF) or a Locked-in Retirement Income Fund (LRIF). The funds are invested and administered in the same manner as the University pension plans.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005

(thousands of dollars)

(f) Foreign currency translation

The University accounts for transactions in foreign currency at the exchange rate in effect at the time of the transactions. At year-end, monetary assets and liabilities denominated in foreign currency are translated at year-end exchange rates. Foreign exchange gains and losses on investments have been included in investment income.

3. INVESTMENTS

(a) Investments consist of the following:

	2005		2004	
	Market Value	Cost	Market Value	Cost
Short-term investments	\$ 84,820	\$ 84,820	\$ 71,353	\$ 71,351
Government bonds	107,319	104,637	90,426	88,759
Corporate bonds	48,343	47,726	35,394	34,563
Canadian equities	76,174	62,015	61,999	50,143
U.S. equities	93,113	95,527	76,035	76,377
Non-North American equities	61,355	57,645	51,695	50,729
Hedge funds	14,486	13,220	12,967	13,392
	<u>\$ 485,610</u>	<u>\$ 465,590</u>	<u>\$ 399,869</u>	<u>\$ 385,314</u>

The University has provided for the repayment of the principal of the Lambton Hall mortgage by the purchase of strip bonds that will have a maturity value of \$10,750 on April 1, 2010. These bonds have an effective yield of 10.98% compounded semi-annually and a book value, as at April 30, 2005, of \$6,198 (2004 - \$5,569). The market value of these bonds as at April 30, 2005 was \$8,632 (2004 - \$8,048).

(b) Investment returns recorded in the combined statement of operations are calculated as follows:

	2005	2004
Investment returns	\$ 25,872	\$ 53,911
Investment returns allocated to external endowments	(11,394)	(24,839)
Allocation for spending from accumulated reinvestment returns	8,410	8,779
	<u>\$ 22,888</u>	<u>\$ 37,851</u>

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

4. CAPITAL ASSETS

Capital assets consist of the following:

	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Building & roads	\$ 545,446	\$ 204,073	\$ 341,373	\$ 490,514	\$ 191,075	\$ 299,439
Equipment & furnishings	291,532	188,403	103,129	272,204	174,309	97,895
Library books	149,073	135,139	13,934	141,712	128,119	13,593
Construction in progress	37,752		37,752	40,757		40,757
Land	9,247		9,247	9,247		9,247
Works of arts	10,337		10,337	9,988		9,988
	<u>\$ 1,043,387</u>	<u>\$ 527,615</u>	<u>\$ 515,772</u>	<u>\$ 964,422</u>	<u>\$ 493,503</u>	<u>\$ 470,919</u>

The University maintains a collection of art that is insured for \$10,343. During the year, paintings were donated to The University with a total appraised value of \$279 (2004 - \$266).

The University's insurer develops replacement values of buildings and contents for insurance purposes using an independent appraisal service. The insured replacement value of buildings is \$1,347,588 (2004 - \$1,189,452); contents is \$1,479,028 (2004 - \$1,379,650), which amount includes library books of \$1,097,576 (2004 - \$1,011,865).

The estimated cost to complete capital projects in progress at April 30, 2005 is approximately \$48,896.

5. BANK INDEBTEDNESS

Bank indebtedness includes amounts for The University and Ivey Management Services.

The University's bank overdraft facility is covered by an unsecured line of credit agreement of \$20,000. The line of credit is due on demand and bears interest at the bank's prime rate.

Ivey Management Services' overdraft facility is covered by a general security agreement. Ivey Management Services may borrow up to \$5,250 at the bank's prime rate.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

6. EMPLOYEE FUTURE BENEFITS

The interval between actuarial valuations for the defined benefit pension plans does not exceed three years with the most recent valuations prepared as at April 30, 2005 for the non-pension plans and December 31, 2003 for the pension plans. In the years between valuations, an extrapolation of the actuarial valuation is used to determine the market related value of the plan assets and the projected benefit obligations.

(i) Non-pension plans:

The accrued benefit liability relating to the non-pension plans is \$158,517 (2004 - \$148,297). This liability has been recorded in the combined financial statements.

Total expense for these plans is \$10,207 (2004 - \$8,142). Benefits paid during the year amounted to \$5,490 (2004 - \$5,421).

(ii) Pension plans:

Information regarding the faculty and staff pension plans is as follows:

	2005	2004
Accrued benefit obligation:		
Faculty members	\$ 7,089	\$ 7,538
Staff members	2,597	2,746
	<u>\$ 9,686</u>	<u>\$ 10,284</u>
Fair value of plan assets:		
Faculty members	\$ 9,249	\$ 9,887
Staff members	2,537	2,714
	<u>\$ 11,786</u>	<u>\$ 12,601</u>
Funded status – surplus	<u>\$ 2,100</u>	<u>\$ 2,317</u>

Contributions to the pension plans during the year are as follows:

	2005	2004
Employer contributions	\$ 19,203	\$ 17,480
Employee contributions	9,942	8,861
	<u>\$ 29,145</u>	<u>\$ 26,341</u>

Total expense for these plans is \$55,594 (2004 - \$59,409). Benefits paid during the year amounted to \$53,757 (2004 - \$57,280).

(iii) Non-pension and pension plans:

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligations for all defined benefit plans are as follows (weighted-average assumptions as of December 31):

	Non-Pension Plans		Pension Plans	
	2005	2004	2005	2004
Discount rate	5.90%	6.25%	6.00%	6.25%
Expected long-term rate of return on plan assets	-	-	6.75%	6.25%
Medical cost increases:				
Hospital	5.00%	5.00%	-	-
Drug	10.00%	10.00%	-	-
Other Medical	5.00%	5.00%	-	-
Dental cost	4.50%	4.50%	-	-

Drug cost is projected to decrease to 5% after 8 years.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

7. DEBT

	Maturity	Interest Rate at April 30, 2005	Annual Payments (Principal and Interest)	2005 Principal Outstanding	2004 Principal Outstanding
(a) The details of the mortgages are as follows:					
Housing					
Canada Mortgage and Housing Corporation:					
Platt's Lane Estates	Aug. 1, 2028	8.00%	\$ 699	\$ 7,933	\$ 8,013
Glenmore Complex	Dec 1, 2019	6.25%	500	4,824	5,014
Delaware Hall	Sept 1, 2011	5.38%	134	630	726
Ontario Housing Corporation:					
Lambton Hall [note (c)]	April 1, 2010	10.36%	1,114	10,750	10,750
Glenmore Complex	Dec 1, 2019	6.50%	31	291	303
Total mortgages			\$ 2,478	\$ 24,428	\$ 24,806

(b) The details of the loans payable, demand notes, public sector term loans, preferred shares and bankers' acceptances are as follows:

Housing					
Essex Hall/Elgin Hall [note (d)]	May 1, 2005	2.74%		\$ 31,300	\$ 32,100
Perth Hall [note (e)]	May 1, 2005	2.84%		23,260	23,260
Western Road Residence [note (f)]	May 17, 2005	2.92%		4,800	-
Capital					
SuperBuild Projects [note (f)]	May 17, 2005	2.92%		17,460	7,970
Telecommunications System [note (g)]	May 1, 2005	2.84%		2,500	3,000
NCMRD Expansion [note (f)]	May 17, 2005	2.92%		1,860	2,150
Law Building Expansion [note (f)]	May 17, 2005	2.92%		680	-
Dental and Medical Facilities [note (f)]				-	5,270
New Child Care Facility [note (f)]				-	580
Other					
University Community Centre [note (h)]	June 29, 2005	2.94%		3,765	5,470
Related Corporations					
Research Park					
(i) Preferred Shares [note (ii)]	Oct. 16, 2007			10,811	10,931
(ii) Operating Loan [note (i)]	Aug. 18, 2005	3.03%		3,500	3,500
Richard Ivey School of Business Foundation					
(i) Bankers' Acceptances [note (j)]	April 30, 2005	prime		5,300	5,800
(ii) Demand Loan [note (j)]	April 30, 2006	prime+1/2%		50	125
Total loans payable				\$ 105,286	\$ 100,156
Total debt				\$ 129,714	\$ 124,962

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005

(thousands of dollars)

- (c) The University has provided for the repayment of the principal of the Lambton Hall mortgage by the purchase of strip bonds that will have a maturity value of \$10,750 on April 1, 2010.
- (d) An interest rate swap agreement has been entered into for \$15,300 for Essex Hall and \$16,000 for Elgin Hall's financing which fixes the effective interest rate at 5.50% over the period ending January 1, 2022.
- (e) An interest rate swap agreement has been entered into for Perth Hall financing which fixes the effective interest rate at 5.38% over the period ending May 2027.
- (f) These financings consist of public sector term loans, which are for 30 day terms and subject to refinancing during the coming year.
- (g) An interest rate swap agreement has been entered into for the telecommunications system financing which fixes the effective interest rate at 5.97% over the period ending May 2009.
- (h) An interest rate swap agreement has been entered into for The University Community Centre Expansion financing which fixes the effective interest rate at 7.47% over the period ending September 2008. An agreement has been entered into whereby the loan will be retired by student contributions.
- (i) On January 3, 2002 the Canada Revenue Agency granted a preferred tax status that allowed the long-term debt of Windermere Manor to be refinanced with preferred shares, for the purpose of reducing debt service requirements. The restructuring plan was implemented on October 16, 2002 and through a series of transactions involving 6027334 Canada Inc. (Newco), a wholly owned subsidiary of Windermere Manor, created for the purpose, \$10,700 of Windermere Manor's outstanding public sector operating loans and its operating line of credit of \$231 were converted into an investment by the bank in \$10,931 of preferred shares of Newco.

Dividends on the preferred shares are paid monthly to the lender at the effective interest rate of 3.31%. Within 90 days of the end of each fiscal year, net cash flows from the Research Park and Windermere Manor remaining after the payment of dividends and reasonable capital expenditures are to be applied to redeem preferred shares. The value of shares redeemed in fiscal 2005 was \$120, reducing the investment by the bank to \$10,811. After October 16, 2007 the lender is entitled to require the redemption of the remaining preferred shares, the effect of which requirement would be to convert such redemption amount back to a loan from the lender to Windermere Manor. The obligations of Windermere Manor and Newco under the terms of this refinancing arrangement are secured by the property of Windermere Manor and are guaranteed by the Research Park to the maximum extent of \$13,556. Such security and guarantee will continue with respect to any loan from the lender arising from its right to require the redemption of the preferred shares.

The fixed rate operating loan payable of \$3,500 for the Research Park is repayable on August 18, 2005 and bears interest at the rate of 3.03%. A comfort letter has been provided by The University of Western Ontario.

- (j) The bankers' acceptance for the Richard Ivey School of Business Foundation is guaranteed by The University. The demand loan is secured by a general security agreement.

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Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

- (k) Anticipated requirements to meet the principal portion of the debt repayments over the next five years are as follows:

	Principal
2006	\$ 8,251
2007	7,529
2008	5,563
2009	5,175
2010	16,580
Subsequent years	86,616
	<u>\$ 129,714</u>

8. DEFERRED CONTRIBUTIONS

Deferred contributions consist of the following:

	2005	2004
Unspent research grants	\$ 46,335	\$ 60,778
Other restricted funds	52,468	48,740
Balance, end of year	<u>\$ 98,803</u>	<u>\$ 109,518</u>

9. DEFERRED CAPITAL CONTRIBUTIONS

The changes in the deferred capital contributions balance are as follows:

	2005	2004
Balance, beginning of year	\$ 228,475	\$ 217,765
Less amortization of deferred capital contributions	(20,154)	(18,896)
Add contributions received during the year	47,041	29,606
Balance, end of year	<u>\$ 255,362</u>	<u>\$ 228,475</u>

Represented by:

Amounts used for the purchase of capital assets	<u>\$ 255,362</u>	<u>\$ 228,475</u>
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The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

10. DONATIONS

Donations received during the year have been recognized as follows:

	2005	2004
Combined Statement of Operations	\$ 17,679	\$ 17,411
Externally restricted endowments	36,887	13,806
Change in deferred contributions	4,873	7,967
	<u>\$ 59,439</u>	<u>\$ 39,184</u>

11. UNRESTRICTED NET ASSETS

Details of the unrestricted net assets are as follows:

	2005	2004
Accumulated investment returns	\$ 21,989	\$ 11,760
Operating fund surplus	12,144	16,154
Provision for vacation pay	(5,910)	(5,474)
Operating deficit - related organizations	(18,868)	(17,996)
Provision for employee future benefits	<u>(158,517)</u>	<u>(148,297)</u>
Balance, end of year	<u>\$ (149,162)</u>	<u>\$ (143,853)</u>

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
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12. INTERNALLY RESTRICTED NET ASSETS

Details of the internally restricted net assets are as follows:

	2005	2004
Departmental carry forwards	\$ 45,349	\$ 41,590
Capital reserve	38,067	8,923
Operating surplus – ancillary & support units	10,302	8,523
Faculty and research trust funds	10,184	9,158
Equipment reserves	8,916	8,242
Self-insurance funds	786	631
Balance, end of year	\$ 113,604	\$ 77,067

- i) Departmental carry forwards represent amounts that vary from budget. The University has in place a flexible budgeting program, which allows operating budget units to defer surpluses and deficits to the subsequent year.
- ii) The capital reserve represents funds restricted for capital purposes.
- iii) Ancillary and support unit carry forwards represent amounts that these units are permitted to carry forward.
- iv) Faculty and research trust funds include donations and other revenue with no external restrictions that departments are permitted to carry forward.
- v) The equipment reserves represent funds that departments have allocated for the future replacement of assets.
- vi) The reserve for self-insurance represents funds set aside to cover uninsured losses and the deductible portion of insured losses.

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Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

13. INVESTMENT IN CAPITAL ASSETS

The investment in capital assets consists of the following:

	2005	2004
Capital assets [note 4]	\$ 515,772	\$ 470,919
Less amounts financed by		
Debt [note 7]	(129,714)	(124,962)
Deferred capital contributions [note 9]	(255,362)	(228,475)
	<u>\$ 130,696</u>	<u>\$ 117,482</u>

The change in investment in capital assets is calculated as follows:

	2005	2004
Amortization of deferred capital contributions	\$ 20,154	\$ 18,896
Amortization of capital assets	(46,863)	(44,599)
	<u>(26,709)</u>	<u>(25,703)</u>
Purchase of capital assets	91,438	95,067
Amounts funded by:		
Debt	(14,970)	(18,990)
Deferred capital contributions	(47,041)	(48,833)
Repayment of debt	10,217	4,261
	<u>39,644</u>	<u>31,505</u>
Non-depreciable assets donated to The University	279	266
Change in investment in capital assets	<u><u>\$ 13,214</u></u>	<u><u>\$ 6,068</u></u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

14. ENDOWMENTS

Net assets restricted for endowment consist of the following:

	2005	2004
Externally Endowed	\$ 203,551	\$ 163,679
Internally Endowed	15,282	15,077
	<u>\$ 218,833</u>	<u>\$ 178,756</u>
Represented by:		
Endowed funds	\$ 197,140	\$ 158,748
Accumulated reinvestment returns	21,693	20,008
	<u>\$ 218,833</u>	<u>\$ 178,756</u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2005
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15. a) ONTARIO STUDENT OPPORTUNITY TRUST FUND – PHASE I

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program. These monies are to award student aid as a result of raising an equal amount of endowed donations.

	2005	2004
Schedule of Changes in Endowment Fund Balance		
Balance, beginning of year	\$ 33,419	\$ 29,781
Cash donations received	50	2
Transfer to other endowments	-	(50)
Investment returns capitalized	344	3,686
Balance, end of year	\$ 33,813	\$ 33,419

Schedule of Changes in Expendable Funds Available for Awards

Balance, beginning of year	\$ 1,491	\$ 1,419
Allocations for spending	847	1,009
Bursaries awarded [733 (2004 – 815)]	(911)	(937)
Balance, end of year	\$ 1,427	\$ 1,491

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
(thousands of dollars)

b) ONTARIO STUDENT OPPORTUNITY TRUST FUND – PHASE II

(For the year ended March 31, 2005)

	2005 UWO	2005 Affiliates	2004 UWO	2004 Affiliates
Schedule of Changes in Endowment Fund Balances				
Balance, beginning of year	\$ 4,294	\$ 646	\$ -	\$ -
Cash donations received	9,720	454	3,142	454
Gov't of Ontario matching funds received	5,324	887	1,152	192
Investment returns capitalized	1	7	-	-
Balance, end of year	\$ 19,339	\$ 1,994	\$ 4,294	\$ 646
Schedule of Changes in Expendable Funds Available for Awards				
Balance, beginning of year	\$ 19	\$ 1	\$ -	\$ -
Allocations for spending	281	33	20	1
Expendable cash donations received	963	-	-	-
Bursaries awarded [150 (2004 – 2)]	(1,082)	(8)	(1)	-
Balance, end of year	\$ 181	\$ 26	\$ 19	\$ 1
Outstanding donations pledged	\$ 9,252	\$ 431	\$ 9,258	\$ 22

16. THE SEYMOUR SCHULICH ENDOWMENT FUND

The University received a pledge of \$26 million from Mr. Seymour Schulich in 2004. As at April 30, 2005, \$14.5 million of this amount has been endowed in perpetuity and is known as The Seymour Schulich Endowment Fund.

Under the Ontario Student Opportunity Trust Fund, \$6.67 million of this amount is eligible to be matched by a 1:1 grant provided by the Government of Ontario.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
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17. STATEMENT OF CASH FLOWS

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

	2005	2004
Accounts receivable	\$ 251	\$ (12,102)
Inventories	404	525
Prepaid expenses	2,127	(7,006)
Accounts payable and accrued liabilities	10,958	(9,241)
Deferred fees and income	2,960	1,697
Net change in non-cash working capital	\$ 16,700	\$ (26,127)

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and deferred fees and income approximate their fair value due to the relatively short period to maturity of these instruments.

The carrying value of debt represents the amounts that were owing to the lenders as at year-end. The fair market value of debt, as shown below, is calculated by discounting future principal and interest payments and obligations under various swap and mortgage agreements, based on market interest rates as at April 30th of each year.

	2005		2004	
	Carrying value	Fair Market Value	Carrying value	Fair Market Value
Debt	\$ 129,714	\$ 139,067	\$ 124,962	\$ 131,986

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
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19. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

(a) Guaranteed housing loans

At April 30, 2005, The University was guarantor of 10 housing loans for faculty and staff in the amount of \$148. The University holds second mortgages as collateral security against such guarantees.

(b) Legal matters

The University is involved from time to time in litigation that arises in the normal course of operations. In respect to these claims The University believes it has valid defences, funded provisions and/or appropriate insurance coverage in place. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. It is possible the final resolution of some of these matters may require The University to make expenditures in excess of estimated reserves, over an extended period of time and in a range that cannot be reasonably estimated at this time. The University's policy is to recognize the losses on any such litigation when the outcome becomes reasonably determinable. In the administration's judgement no material exposure exists on the eventual settlement of such litigation.

(c) Capital and other commitments

The estimated cost to complete capital projects in progress at April 30, 2005 is approximately \$48,896. On June 30, 2005 The University purchased the Westminster College Property for \$7,655.

(d) Canadian Universities Reciprocal Insurance Exchange

On January 1, 2003 The University entered a fourth, 5-year membership with the Canadian Universities Reciprocal Insurance Exchange (CURIE). All members pay annual deposit premiums which are actuarially determined and may be subject to further assessment in the event members' premiums are insufficient to cover losses and expenses.

For general liability insurance, CURIE continues to pool the risks of its members and to carry \$10,000 of liability coverage per occurrence with \$10,000 excess coverage. For property insurance, the limit in any one loss shall not exceed \$5,000. All losses are subject to an annual aggregate of \$7,500. Once the per occurrence or aggregate is exhausted the excess policy shall apply. For excess coverage, members of CURIE are insured by various insurance companies to a limit of \$650,000. For errors or omissions insurance CURIE pools the risk of its members and carries \$10,000 of coverage with additional excess coverage of \$10,000.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2005
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20. PLEDGES

Total pledges outstanding and expected year of collection are as follows:

	Pledges
2006 -	\$ 20,128
2007 -	8,267
2008 -	6,230
subsequent years -	29,188
	<u>\$ 63,813</u>

21. COMPARATIVE AMOUNTS

Certain of the comparative amounts have been reclassified to conform to the financial statement presentation adopted in the current year.