

THE UNIVERSITY OF WESTERN ONTARIO

COMBINED FINANCIAL STATEMENTS

APRIL 30, 2006

Financial Highlights

April 30, 2006

The University completed the year with revenues of \$764.5 million, expenses of \$721.9 million and an excess of revenues over expenses of \$42.6 million.

The operating results, together with the investment returns allocated to the endowments (net of spending) of \$15.8 million and the receipt of \$30.7 million of endowed donations increased the University's net assets from \$314.0 million to \$403.4 million, a \$89.4 million (28.5%) increase over the prior year.

The changes in results are primarily due to increased Provincial government grants (Quality Improvement Fund) under the McGuinty government's Reaching Higher plan and positive equity market returns.

The University records investments in the accounts at market value and returns are subject to market fluctuation. Western's Operating and Endowment portfolio earned a return of 13.9% for the year ending April 30, 2006. Equity investments, lead by Canadian and Non-North American stocks provided high returns for the year, while the fixed income portion of the portfolio provided lower returns than stocks due to an increase in interest rates over the year. Investment returns for the year totaled \$58.0 million, reflected as \$42.2 million of investment returns in the Combined Statement of Operations (statement 2) and as a net increase of \$15.8 million to the Endowments in the Combined Statement of Changes in Net Assets (statement 3).

On a cash basis, research revenues increased from \$100.4 million in 2005 to \$134.5 million. The federal increase amounted to \$17.8 million and the Provincial increase \$15.2 million. Although the increase in revenue over 2005 was significant, the research revenues in 2004 were \$124.5 million and declined in 2005 related to the timing of construction of the West Valley Building.

Capital spending for the University totaled \$70 million. The projects completed or underway are largely new construction, required to meet the need for increased space for growth in graduate enrolment and to expand and update the research infrastructure. New construction includes London Hall Residence, the Biotron, West Valley Building and the Dr. Don Rix Clinical Skills Learning Facility. Maintenance, Modernization and Infrastructure (MMI) projects consist of major renovations in the Medical Sciences Building and Biological and Geological Sciences Building. These large projects will address major deferred maintenance issues and renew facilities to modern day standards. The MMI projects also include numerous projects involving renewal of instructional and research facilities, utilities and infrastructure projects and other maintenance/modernization projects. Capital spending also includes the purchase of the Westminster College Property. Funding for these projects include donations, research infrastructure grants, provincial government grants, operating funds and bank financing.

Endowments grew by \$47.8 million, up 21.8% from the previous fiscal year. Endowed donations for the year totaled \$8.3 million for Foundation Western and \$22.3 million for the University.

Heading into 2007, the University, with the support of increased government funding, (a substantial portion of which is linked directly to expanded enrolment of graduate students) will be investing strategically in areas such as recruitment of additional faculty and staff, graduate student expansion, and the space/facilities to accommodate these additional faculty, staff, and graduate students.



The UNIVERSITY of WESTERN ONTARIO

Office of the President & Vice-Chancellor

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 judgments 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. This 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 - Resources & Operations



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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, 2006 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, 2006 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 28, 2006

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Financial Position

Statement 1

As at April 30, 2006, with comparative amounts for 2005
(thousands of dollars)

	2006 \$	2005 \$
Assets		
Cash	9,176	2,137
Accounts receivable	55,505	44,693
Inventories	4,730	4,679
Prepaid expenses	8,676	7,036
Investments [note 3]	551,274	485,610
Capital assets [note 4]	569,976	515,772
	<u>1,199,337</u>	<u>1,059,927</u>
Liabilities and deferred contributions		
Bank indebtedness [note 5]	5,695	5,580
Accounts payable and accrued liabilities	65,665	67,299
Deferred fees and income	33,885	30,681
Employee future benefits [note 6]	173,225	158,517
Debt [note 7]	127,198	129,714
Deferred contributions [note 8]	107,343	98,803
Deferred capital contributions [note 9]	282,938	255,362
	<u>795,949</u>	<u>745,956</u>
Net assets [Statement 3]	<u>403,388</u>	<u>313,971</u>
	<u>1,199,337</u>	<u>1,059,927</u>

See accompanying notes to the combined financial statements.

Commitments and contingencies [note 19].

Approved on behalf of the Board of Governors:



H. Connell
Chair, Board of Governors



K. Zerebecki
Chair, Audit Committee

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Operations

Statement 2

For the year ended April 30, 2006, with comparative amounts for 2005
(thousands of dollars)

	2006	2005
	\$	\$
Revenues		
Government grants for general operations	193,732	173,402
Restricted government grants and other grants and contracts	161,446	155,610
Student fees	199,462	197,164
Sales and services	126,745	120,200
Investment returns [note 3(b)]	42,240	22,888
Donations	15,224	17,679
Recoverable salaries and benefits	13,907	12,405
Other revenues	11,787	13,924
	<u>764,543</u>	<u>713,272</u>
Expenses		
Salaries and benefits	431,925	403,595
Operating costs	113,473	102,341
Amortization of capital assets	51,542	46,863
Scholarships, fellowships and bursaries	49,244	44,358
Cost of sales and services	33,944	33,361
Taxes and utilities	22,914	19,282
Repairs and maintenance	11,638	12,364
Interest	7,250	6,739
	<u>721,930</u>	<u>668,903</u>
Excess of revenues over expenses	<u>42,613</u>	<u>44,369</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, 2006, with comparative amounts for 2005
(thousands of dollars)

	2006					2005
	Unrestricted [note 10]	Internally Restricted [note 11]	Investment in Capital Assets [note 12]	Endowments [note 13]	Total	Total
	\$	\$	\$	\$	\$	\$
Net assets, beginning of year	(149,162)	113,604	130,696	218,833	313,971	229,452
Excess of revenues over expenses	42,613	-	-	-	42,613	44,369
Change in internally restricted net assets	(7,699)	7,699	-	-	-	-
Change in investment in capital assets [note 12]	(29,272)	-	29,572	-	300	279
Transfer to internally endowed	(1,799)	-	-	1,799	-	-
Allocation of internally endowed returns	558	-	-	(558)	-	-
Investment returns allocated to external endowments [note 3(b)]	-	-	-	26,482	26,482	11,394
Allocation for spending from accumulated reinvestment returns [note 3(b)]	-	-	-	(10,669)	(10,669)	(8,410)
Endowment contributions	-	-	-	30,691	30,691	36,887
Net assets, end of year	<u>(144,761)</u>	<u>121,303</u>	<u>160,268</u>	<u>266,578</u>	<u>403,388</u>	<u>313,971</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, 2006, with comparative amounts for 2005
(thousands of dollars)

	2006 \$	2005 \$
Operating activities		
Excess of revenues over expenses	42,613	44,369
Add/(deduct) non-cash items		
Amortization of capital assets	51,542	46,863
Amortization of deferred capital contributions	(23,887)	(20,154)
Change in unrealized investment gains	(38,763)	(5,389)
Employee future benefits	14,708	10,220
Net change in non-cash working capital [note 17]	(10,933)	16,700
Cash provided by operating activities	35,280	92,609
Investing and financing activities		
Net change in investments	(26,901)	(80,352)
Purchase of capital assets	(105,446)	(91,438)
Receipt of deferred capital contributions	51,463	47,041
Net change in deferred contributions	8,540	(10,715)
Investment returns allocated to external endowments [note 3]	26,482	11,394
Allocation for spending from accumulated reinvestment returns [note 3]	(10,669)	(8,410)
Repayment of debt	(23,021)	(10,217)
Receipt of debt	20,505	14,970
Endowment contributions	30,691	36,887
Cash used in investing and financing activities	(28,356)	(90,840)
Net increase in cash	6,924	1,769
Cash position, beginning of year	(3,443)	(5,212)
Cash position, end of year	3,481	(3,443)
Represented by:		
Cash	9,176	2,137
Bank indebtedness	(5,695)	(5,580)
	3,481	(3,443)

See accompanying notes to the combined financial statements.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006
(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 Museum of Ontario 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, Canadian Centre for Activity and Aging, 1675025 Ontario Limited (Boundary Layer Wind Tunnel) and related foundations in which The University has an economic interest, including: Foundation Western, The University of Western Ontario Foundation Inc., The University of Western Ontario (United Kingdom) Foundation, and The University of Western Ontario (Hong Kong) Foundation Limited.

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

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006

(thousands of dollars)

principal be maintained intact, are recognized as direct increases in endowment net assets.

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. Investment returns include interest, dividends, realized and unrealized capital gains and losses and realized and unrealized currency gains and losses. Strip bonds are recorded at cost plus accrued interest at their effective yield.

Investment returns (losses) attributed to the endowments are recorded as an addition (reduction) to endowments net assets. All other investment returns along with the amounts allocated for spending from the endowments are recorded as investment returns in the combined statement of operations.

Investment returns on internally restricted endowments are recorded as a transfer from unrestricted to endowments in the statement of changes in net assets.

The University protects the capital value of the endowments by limiting the amount of investment returns that are allocated for spending and requiring the reinvestment of investment returns in excess of such amounts allocated for spending. In any particular year, should investment returns be insufficient to fund the amounts 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, 2006

(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, computer equipment and library books, and on a declining balance basis for all other capital assets.

Amortization rates are generally as follows:

Buildings	40 Years
Computer equipment	5 years
Equipment and furnishings	20 %
Library books	5 years
Works of art are not amortized.	

Construction in progress is primarily buildings. 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 net 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, 2006
(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:

	2006		2005	
	Market Value	Cost	Market Value	Cost
Short-term investments	\$ 61,507	\$ 61,504	\$ 84,820	\$ 84,820
Government bonds	132,866	128,626	107,319	104,637
Corporate bonds	38,914	37,654	48,343	47,726
Canadian equities	106,613	76,932	76,174	62,015
U.S. equities	113,173	108,760	93,113	95,527
Non-North American equities	79,958	63,630	61,355	57,645
Hedge funds	18,243	15,861	14,486	13,220
	<u>\$ 551,274</u>	<u>\$ 492,967</u>	<u>\$ 485,610</u>	<u>\$ 465,590</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, 2006, of \$6,897 (2005 - \$6,198). The market value of these bonds as at April 30, 2006 was \$8,865 (2005 - \$8,632).

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

	2006	2005
Investment returns	\$ 58,053	\$ 25,872
Investment returns allocated to external endowments	(26,482)	(11,394)
Allocation for spending from accumulated reinvestment returns	10,669	8,410
	<u>\$ 42,240</u>	<u>\$ 22,888</u>

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006
(thousands of dollars)

4. CAPITAL ASSETS

Capital assets consist of the following:

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Building	\$ 583,788	\$ 218,172	\$ 365,616	\$ 545,446	\$ 204,073	\$ 341,373
Equipment, furnishing & computer equipment	292,859	178,780	114,079	291,532	188,403	103,129
Library books	156,505	142,101	14,404	149,073	135,139	13,934
Construction in progress	51,295		51,295	37,752		37,752
Land	13,945		13,945	9,247		9,247
Works of arts	10,637		10,637	10,337		10,337
	<u>\$ 1,109,029</u>	<u>\$ 539,053</u>	<u>\$ 569,976</u>	<u>\$ 1,043,387</u>	<u>\$ 527,615</u>	<u>\$ 515,772</u>

The University maintains a collection of art that is insured for \$10,387. During the year, paintings were donated to The University with a total appraised value of \$300 (2005 - \$279).

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 \$1,440,019 (2005 - \$1,347,588); contents is \$1,483,311 (2005 - \$1,479,028), which amount includes library books of \$1,080,359 (2005 - \$1,097,576).

The estimated cost to complete capital projects in progress at April 30, 2006 is approximately \$49,330 (2005 - \$48,896).

5. BANK INDEBTEDNESS

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' has an overdraft facility that is covered by a general security agreement and they 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, 2006
(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 \$173,225 (2005 - \$158,517). This liability has been recorded in the combined financial statements.

Total expense for these plans is \$14,708 (2005 - \$10,220). Benefits paid during the year amounted to \$5,328 (2005 - \$5,490).

(ii) Pension plans:

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

	2006	2005
Accrued benefit obligation:		
Faculty members	\$ 6,893	\$ 7,089
Staff members	2,583	2,597
	<u>\$ 9,476</u>	<u>\$ 9,686</u>
Fair value of plan assets:		
Faculty members	\$ 8,747	\$ 9,249
Staff members	2,445	2,537
	<u>\$ 11,192</u>	<u>\$ 11,786</u>
Funded status – surplus	<u>\$ 1,716</u>	<u>\$ 2,100</u>
Contributions to the pension plans during the year are as follows:		
	2006	2005
Employer contributions	\$ 20,372	\$ 19,203
Employee contributions	10,593	9,942
	<u>\$ 30,965</u>	<u>\$ 29,145</u>

Total expense for these plans is \$67,895 (2005 - \$55,594) which include benefits paid during the year in the amount of \$66,363 (2005 - \$53,757).

(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	
	2006	2005	2006	2005
Discount rate	5.90%	5.90%	4.50%	6.00%
Expected long-term rate of return on plan assets	-	-	4.50%	6.75%
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 13 years.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006
(thousands of dollars)

7. DEBT

	Maturity	Interest Rate at April 30, 2006	Annual Payments (Principal and Interest)	2006 Principal Outstanding	2005 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	\$ 7,845	\$ 7,933
Glenmore Complex	Dec 1, 2019	6.25%	500	4,622	4,824
Delaware Hall	Sept 1, 2011	5.38%	134	529	630
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	279	291
Total mortgages			\$ 2,478	\$ 24,025	\$ 24,428

(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)]	April 30, 2006	4.03%	\$ 30,500	\$ 31,300	
Perth Hall [note (e)]	April 30, 2006	4.13%	22,260	23,260	
London Hall Residence [note (f)]	May 23, 2006	4.26%	21,600	4,800	
Capital					
Dental and Medical Facilities [note (g)]	May 16, 2006	4.35%	2,670	-	
Telecommunications System [note (h)]	April 30, 2006	4.13%	2,000	2,500	
NCMRD Expansion [note (g)]	May 16, 2006	4.35%	1,540	1,860	
Dr. Don Rix Clinical Skills Learning Building [note (g)]	May 16, 2006	4.35%	810	-	
Law Building Expansion [note (g)]	May 16, 2006	4.35%	680	680	
SuperBuild Projects [note (g)]			-	17,460	
Other					
University Community Centre [note (i)]	June 29, 2006	4.16%	1,810	3,765	
Student Recreational Facility [note (g)]	May 16, 2006	4.35%	225	-	
Related Corporations					
Research & Development Park					
(i) Preferred Shares [note (j)]	Oct. 16, 2007		10,778	10,811	
(ii) Operating Loan [note (j)]	July 17, 2006	4.50%	3,500	3,500	
Richard Ivey School of Business Foundation					
(i) Bankers' Acceptances [note (k)]	April 30, 2006	prime	4,800	5,300	
(ii) Demand Loan [note (k)]			-	50	
Total loans payable			\$ 103,173	\$ 105,286	
Total debt			\$ 127,198	\$ 129,714	

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006

(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 \$14,900 for Essex Hall and \$15,600 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) This financing consists of a 30 day banker's acceptance, and is subject to refinancing during the coming year.
- (g) These financings consist of public sector term loans, which are for 30 day terms and subject to refinancing during the coming year.
- (h) 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.
- (i) 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 30, 2008. An agreement has been entered into whereby the loan will be retired by student contributions.
- (j) 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 and Development 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 2006 was \$33 (2005 - \$120), reducing the investment by the bank to \$10,778. 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 and Development 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 and Development Park is repayable on July 17, 2006 and bears interest at the rate of 4.50%. A comfort letter has been provided by The University of Western Ontario.

- (k) 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 issued by the Richard Ivey School of Business Foundation.

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Notes to the Combined Financial Statements

Year Ended April 30, 2006
(thousands of dollars)

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

	Principal
2007	\$ 9,927
2008	3,763
2009	3,795
2010	14,580
2011	3,301
Subsequent years	91,832
	<u>\$ 127,198</u>

8. DEFERRED CONTRIBUTIONS

Deferred contributions consist of the following:

	2006	2005
Unspent research grants	\$ 46,641	\$ 46,335
Other restricted funds	60,702	52,468
Balance, end of year	<u>\$ 107,343</u>	<u>\$ 98,803</u>

9. DEFERRED CAPITAL CONTRIBUTIONS

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

	2006	2005
Balance, beginning of year	\$ 255,362	\$ 228,475
Less amortization of deferred capital contributions	(23,887)	(20,154)
Add contributions received during the year	51,463	47,041
Balance, end of year	<u>\$ 282,938</u>	<u>\$ 255,362</u>

Represented by:

Amounts used for the purchase of capital assets	\$ 282,510	\$ 255,362
Amounts to be spent on capital assets	428	-
	<u>\$ 282,938</u>	<u>\$ 255,362</u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2006
(thousands of dollars)

10. UNRESTRICTED NET ASSETS

Details of the unrestricted net assets are as follows:

	2006	2005
Undistributed investment returns	\$ 47,518	\$ 21,989
Operating fund surplus	7,311	12,144
Provision for vacation pay	(6,307)	(5,910)
Operating deficit - related organizations	(20,058)	(18,868)
Provision for employee future benefits	(173,225)	(158,517)
Balance, end of year	\$ (144,761)	\$ (149,162)

11. INTERNALLY RESTRICTED NET ASSETS

Details of the internally restricted net assets are as follows:

	2006	2005
Departmental carry forwards	\$ 47,539	\$ 45,349
Capital reserve	37,114	38,067
Operating surplus – ancillary and support units	12,628	10,302
Faculty and research trust funds	12,356	10,184
Equipment reserves	10,726	8,916
Self-insurance funds	940	786
Balance, end of year	\$ 121,303	\$ 113,604

- 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.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006
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12. INVESTMENT IN CAPITAL ASSETS

The investment in capital assets consists of the following:

	2006	2005
Capital assets [note 4]	\$ 569,976	\$ 515,772
Less amounts financed by		
Debt [note 7]	(127,198)	(129,714)
Deferred capital contributions [note 9]	(282,510)	(255,362)
	<u>\$ 160,268</u>	<u>\$ 130,696</u>

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

	2006	2005
Amortization of deferred capital contributions	\$ 23,887	\$ 20,154
Amortization of capital assets	(51,542)	(46,863)
	<u>(27,655)</u>	<u>(26,709)</u>
Purchase of capital assets	105,446	91,438
Amounts funded by:		
Debt	(20,505)	(14,970)
Deferred capital contributions	(51,035)	(47,041)
Repayment of debt	23,021	10,217
	<u>56,927</u>	<u>39,644</u>
Non-depreciable assets donated to The University	300	279
Change in investment in capital assets	<u><u>\$ 29,572</u></u>	<u><u>\$ 13,214</u></u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2006
(thousands of dollars)

13. ENDOWMENTS

Net assets restricted for endowment consist of the following:

	2006	2005
Externally Endowed	\$ 250,055	\$ 203,551
Internally Endowed	16,523	15,282
	<u>\$ 266,578</u>	<u>\$ 218,833</u>

Represented by:

Endowed funds	\$ 228,010	\$ 197,140
Accumulated reinvestment returns	38,568	21,693
	<u>\$ 266,578</u>	<u>\$ 218,833</u>

14. (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 (OSOTF) matching program. These monies are to award student aid as a result of raising an equal amount of endowed donations.

	2006	2005
Schedule of Changes in Endowment Fund Balance		
Balance, beginning of year	\$ 33,813	\$ 33,419
Donations received	9	50
Investment returns capitalized	2,885	344
Balance, end of year	<u>\$ 36,707</u>	<u>\$ 33,813</u>

Schedule of Changes in Expendable Funds Available for Awards

Balance, beginning of year	\$ 1,427	\$ 1,491
Allocations for spending	882	847
Bursaries awarded [774 (2005 – 733)]	(1,015)	(911)
Balance, end of year	<u>\$ 1,294</u>	<u>\$ 1,427</u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2006
(thousands of dollars)

(b) ONTARIO STUDENT OPPORTUNITY TRUST FUND – PHASE II

	2006 UWO [note (c)]	2006 Affiliates [note (c)]	2005 UWO [note (c)]	2005 Affiliates [note (c)]
Schedule of Changes in Endowment Fund Balances				
Balance, beginning of year	\$ 19,339	\$ 1,994	\$ 4,294	\$ 646
Donations received	-	-	9,720	454
MTCU matching funds received (re-allocated in 2006)	354	(354)	5,324	887
Donations transferred to OTSS [note (d)]	(6,002)	(202)	-	-
Investment returns capitalized	615	3	1	7
Balance, end of year	\$ 14,306	\$ 1,441	\$ 19,339	\$ 1,994
Schedule of Changes in Expendable Funds Available for Awards				
Balance, beginning of year	\$ 181	\$ 26	\$ 19	\$ 1
Allocations for spending	1,580	100	281	33
Expendable contributions received	2	-	963	-
Bursaries awarded [145 (2005 – 150)]	(1,170)	(38)	(1,082)	(8)
Balance, end of year	\$ 593	\$ 88	\$ 181	\$ 26

(c) For the year ended 2006, the reporting period is the thirteen month period April 1, 2005 to April 30, 2006. The comparative is for the twelve month period April 1, 2004 to March 31, 2005. This is per the Ministry of Training, Colleges and Universities guidelines.

(d) Donations not matched by the Government of Ontario at March 31, 2005, the end of the OSOTF II program, were allowed to be transferred to the Ontario Trust for Student Support (OTSS) program and were then matched by the Government (note 15).

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006
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15. ONTARIO TRUST FOR STUDENT SUPPORT

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

(For the year ended March 31, 2006)

	UWO	Affiliates
Schedule of Changes in Endowment Fund Balances		
Balance, beginning of year	\$ -	\$ -
Contributions received	15,737	1,022
MTCU matching funds received	6,156	1,022
Investment returns capitalized	610	16
Balance, end of year	\$ 22,503	\$ 2,060
Schedule of Changes in Expendable Funds Available for Awards		
Balance, beginning of year	\$ -	\$ -
Allocations for spending	126	5
Expendable contributions received	-	-
Bursaries awarded [6]	(34)	-
Balance, end of year	\$ 92	\$ 5
Outstanding donations pledged	\$ 7,813	\$ 204

16. THE SEYMOUR SCHULICH ENDOWMENT FUND

The University received a pledge of \$26 million from Mr. Seymour Schulich in 2004. As at April 30, 2006, the full amount of the pledge had been received of which \$23.5 million has been endowed in perpetuity and is known as The Seymour Schulich Endowment Fund. The remaining \$2.5 million was designated as expendable.

Under the Government of Ontario Matching Programs (Ontario Student Opportunity Trust Fund and Ontario Trust for Student Support) \$13.7 million of this amount is eligible to be matched by a 1:1 grant.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006
(thousands of dollars)

17. STATEMENT OF CASH FLOWS

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

	2006	2005
Accounts receivable	\$ (10,812)	\$ 251
Inventories	(51)	404
Prepaid expenses	(1,640)	2,127
Accounts payable and accrued liabilities	(1,634)	10,958
Deferred fees and income	3,204	2,960
Net change in non-cash working capital	\$ (10,933)	\$ 16,700

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.

	2006		2005	
	Carrying value	Fair Market Value	Carrying value	Fair Market Value
Debt	\$ 127,198	\$ 132,630	\$ 129,714	\$ 139,067

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2006
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19. COMMITMENTS AND CONTINGENCIES

(a) Guaranteed housing loans

At April 30, 2006, The University was guarantor of 11 (2005 - 10) housing loans for faculty and staff in the amount of \$179 (2005 - \$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, 2006 is approximately \$49,330 (2005 - \$48,896).

(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, 2006
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20. PLEDGES

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

	Pledges
2007 -	\$ 21,019
2008 -	9,047
2009 -	6,990
subsequent years -	16,340
	<u>\$ 53,396</u>

21. COMPARATIVE AMOUNTS

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