

THE UNIVERSITY OF WESTERN ONTARIO
COMBINED FINANCIAL STATEMENTS
APRIL 30, 2007



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, 2007 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, 2007 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Accountants, Licensed Public Accountants

London, Canada

July 27, 2007

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Financial Position

Statement 1

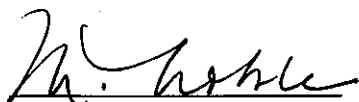
As at April 30, 2007, with comparative amounts for 2006
(thousands of dollars)


	<u>2007</u>	<u>2006</u>
	\$	\$
Assets		
Cash	2,724	9,176
Accounts receivable	58,429	55,505
Inventories	5,205	4,730
Prepaid expenses	8,844	8,676
Investments [note 3]	658,155	551,274
Capital assets [note 4]	<u>628,246</u>	<u>569,976</u>
	<u>1,361,603</u>	<u>1,199,337</u>
Liabilities and deferred contributions		
Bank indebtedness [note 5]	12,176	5,695
Accounts payable and accrued liabilities	67,468	65,665
Deferred fees and income	36,454	33,885
Employee future benefits [note 6]	188,170	173,225
Debt [note 7]	126,181	127,198
Deferred contributions [note 8]	121,456	107,343
Deferred capital contributions [note 9]	<u>297,593</u>	<u>282,938</u>
	<u>849,498</u>	<u>795,949</u>
Net assets [Statement 3]	<u>512,105</u>	<u>403,388</u>
	<u>1,361,603</u>	<u>1,199,337</u>

See accompanying notes to the combined financial statements.

Commitments, contingencies and subsequent events [note 17].

Approved on behalf of the Board of Governors:


M. Noble
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, 2007, with comparative amounts for 2006
(thousands of dollars)

	<u>2007</u>	<u>2006</u>
	\$	\$
Revenues		
Government grants for general operations	207,848	193,732
Restricted government grants and other grants and contracts	186,792	161,446
Student fees	209,581	199,462
Sales and services	128,698	126,745
Investment returns [note 3(b)]	46,567	42,240
Donations	21,268	15,224
Recoverable salaries and benefits	14,239	13,907
Other revenues	14,137	11,787
	<u>829,130</u>	<u>764,543</u>
Expenses		
Salaries and benefits	461,297	431,925
Operating costs	118,993	113,473
Amortization of capital assets	53,139	51,542
Scholarships, fellowships and bursaries	52,327	49,244
Cost of sales and services	33,852	33,944
Utilities	19,164	19,682
Repairs and maintenance	12,620	11,638
Taxes	3,131	3,232
Interest	7,728	7,250
	<u>762,251</u>	<u>721,930</u>
Excess of revenues over expenses	<u>66,879</u>	<u>42,613</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, 2007, with comparative amounts for 2006
(thousands of dollars)

	2007				2006	
	Unrestricted [note 10] \$	Internally Restricted [note 11] \$	Investment in Capital Assets [note 12] \$	Endowments [note 13] \$	Total \$	Total \$
Net assets, beginning of year	(144,761)	121,303	160,268	266,578	403,388	313,971
Excess of revenues over expenses	66,879	-	-	-	66,879	42,613
Change in internally restricted net assets	(17,718)	17,718	-	-	-	-
Change in investment in capital assets [note 12]	(44,495)	-	44,951	-	456	300
Transfer to internally endowed	(1,677)	-	-	1,677	-	-
Allocation of internally endowed returns	621	-	-	(621)	-	-
Investment returns allocated to external endowments [note 3(b)]	-	-	-	30,385	30,385	26,482
Allocation for spending from accumulated reinvestment returns [note 3(b)]	-	-	-	(13,069)	(13,069)	(10,669)
Endowment contributions	-	-	-	24,066	24,066	30,691
Net assets, end of year	<u>(141,151)</u>	<u>139,021</u>	<u>205,219</u>	<u>309,016</u>	<u>512,105</u>	<u>403,388</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, 2007, with comparative amounts for 2006
(thousands of dollars)

	2007	2006
	\$	\$
Operating activities		
Excess of revenues over expenses	66,879	42,613
Add/(deduct) non-cash items		
Amortization of capital assets	53,139	51,542
Amortization of deferred capital contributions	(24,601)	(23,887)
Change in unrealized investment gains	(26,601)	(38,763)
Employee future benefits	14,945	14,708
Net change in non-cash working capital [note 16]	805	(10,933)
Cash provided by operating activities	<u>84,566</u>	<u>35,280</u>
Investing and financing activities		
Net change in investments	(80,280)	(26,901)
Purchase of capital assets	(110,953)	(105,446)
Receipt of deferred capital contributions	39,256	51,463
Net change in deferred contributions	14,113	8,540
Investment returns allocated to external endowments [note 3(b)]	30,385	26,482
Allocation for spending from accumulated reinvestment returns [note 3(b)]	(13,069)	(10,669)
Repayment of debt	(9,617)	(23,021)
Receipt of debt	8,600	20,505
Endowment contributions	24,066	30,691
Cash used in investing and financing activities	<u>(97,499)</u>	<u>(28,356)</u>
Net increase/(decrease) in cash	(12,933)	6,924
Cash position, beginning of year	3,481	(3,443)
Cash position, end of year	<u>(9,452)</u>	<u>3,481</u>
Represented by:		
Cash	2,724	9,176
Bank indebtedness	(12,176)	(5,695)
	<u>(9,452)</u>	<u>3,481</u>

See accompanying notes to the combined financial statements.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
(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 and The University of Western Ontario Foundation Inc. These financial statements do not include the accounts, transactions, and operations of the following related entities, which carry out certain fundraising and other activities, and are not material to these financial statements: 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.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
(thousands of dollars)

Endowment contributions, having externally or internally imposed restrictions requiring that the 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 fair 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, 2007
(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, 2007
(thousands of dollars)

(f) Derivative financial instruments

The University enters into interest rate swaps to manage the interest rate cash flow exposure associated with certain debt obligation. The contracts have the effect of converting the floating rate of interest on certain debt to a fixed rate. Where derivative financial instruments meet specified criteria to be designated as hedges for accounting purposes, income and expenses are recognized in the Combined Statement of Operations in the same period as the related hedged item. Derivative financial instruments that do not qualify for hedge accounting are carried at fair value on the Combined Statement of Financial Position and subsequent changes are recorded in the Combined Statement of Operations.

(g) 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:

	2007	2006
	Fair Value	Fair Value
Short-term investments	\$ 78,428	\$ 61,507
Government bonds	158,629	132,866
Corporate bonds	38,188	38,914
Canadian equities	124,808	106,613
U.S. equities	138,603	113,173
Non-North American equities	97,673	79,958
Hedge funds	21,826	18,243
	<u>\$ 658,155</u>	<u>\$ 551,274</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, 2007, of \$7,675 (2006 - \$6,897). The fair value of these bonds as at April 30, 2007 was \$9,363 (2006 - \$8,865).

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

	2007	2006
Investment returns	\$ 63,883	\$ 58,053
Investment returns allocated to external endowments	(30,385)	(26,482)
Allocation for spending from accumulated reinvestment returns	13,069	10,669
	<u>\$ 46,567</u>	<u>\$ 42,240</u>

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
(thousands of dollars)

4. CAPITAL ASSETS

Capital assets consist of the following:

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Building	\$ 638,103	\$ 232,923	\$ 405,180	\$ 583,788	\$ 218,172	\$ 365,616
Equipment, furnishing & computer equipment	312,995	192,764	120,231	292,859	178,780	114,079
Library books	164,705	149,173	15,532	156,505	142,101	14,404
Construction in progress	62,725		62,725	51,295		51,295
Land	13,485		13,485	13,945		13,945
Works of arts	11,093		11,093	10,637		10,637
	<u>\$ 1,203,106</u>	<u>\$ 574,859</u>	<u>\$ 628,246</u>	<u>\$ 1,109,029</u>	<u>\$ 539,053</u>	<u>\$ 569,976</u>

The University maintains a collection of art that is insured for \$10,660. During the year, paintings were donated to The University with a total appraised value of \$456 (2006 - \$300).

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 \$1,478,317 (2006 - \$1,440,019); contents is \$1,513,241 (2006 - \$1,483,311), which amount includes library books of \$1,099,608 (2006 - \$1,080,359).

The estimated cost to complete capital projects in progress at April 30, 2007 is approximately \$94,923 (2006 - \$49,330).

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 \$3,250 at the bank's prime rate.

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, 2006 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 \$188,170 (2006 - \$173,225). This liability has been recorded in the combined financial statements.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
(thousands of dollars)

Total expense for these plans is \$14,945 (2006 - \$14,708). Benefits paid during the year amounted to \$5,775 (2006 - \$5,328).

(ii) Pension plans:

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

	2007	2006
Accrued benefit obligation:		
Faculty members	\$ 7,044	\$ 6,893
Staff members	2,541	2,583
	<u>\$ 9,585</u>	<u>\$ 9,476</u>
Fair value of plan assets:		
Faculty members	\$ 8,618	\$ 8,747
Staff members	2,383	2,445
	<u>\$ 11,001</u>	<u>\$ 11,192</u>
Funded status – surplus	<u>\$ 1,416</u>	<u>\$ 1,716</u>

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

	2007	2006
Employer contributions	\$ 21,910	\$ 20,372
Employee contributions	11,289	10,593
	<u>\$ 33,199</u>	<u>\$ 30,965</u>

Total expense for these plans is \$62,519 (2006 - \$67,895) which include benefits paid during the year in the amount of \$61,229 (2006 - \$66,363).

(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	
	2007	2006	2007	2006
Discount rate	5.2%	5.90%	4.50%	4.50%
Expected long-term rate of return on plan assets		-	4.50%	4.50%
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 .5% each year to a 5% ultimate rate.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
(thousands of dollars)

7. DEBT

	Maturity	Interest Rate at April 30, 2007	Annual Payments (Principal and Interest)	2007 Principal Outstanding	2006 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	\$ 7,748	\$ 7,845
Glenmore Complex	Dec 1, 2019	6.25%	500	4,407	4,622
Delaware Hall	Sept 1, 2011	5.38%	134	422	529
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	267	279
Total mortgages			\$ 2,478	\$ 23,594	\$ 24,025

(b) The details of the loans payable, demand notes, fixed rate operating loans, preferred shares and bankers' acceptances are as follows:

Housing					
London Hall Residence [note (d)]	May 22, 2007	4.46%	\$	\$ 30,200	\$ 21,600
Essex Hall/Elgin Hall [note (e)]	April 30, 2007	4.49%		29,700	30,500
Perth Hall [note (f)]	April 30, 2007	4.59%		21,260	22,260
Capital					
NCMRD Expansion [note (g)]	June 19, 2007	4.72%		1,540	1,540
Telecommunications System [note (h)]	April 30, 2007	4.59%		1,500	2,000
Dental and Medical Facilities				-	2,670
Dr. Don Rix Clinical Skills Learning Building				-	810
Law Building Expansion				-	680
Other					
University Community Centre				-	1,810
Student Recreational Facility				-	225
Related Corporations					
Research & Development Park					
(i) Preferred Shares [note (i)]	Oct. 16, 2007			10,587	10,778
(ii) Operating Loan [note (i)]	July 11, 2007	4.71%		3,500	3,500
Richard Ivey School of Business Foundation					
(i) Bankers' Acceptances [note (j)]	April 30, 2007	prime		4,300	4,800
Total loans payable			\$	\$ 102,587	\$ 103,173
Total debt			\$	\$ 126,181	\$ 127,198

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007

(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) This financing consists of a 30 day banker's acceptance, and is subject to refinancing that will have a maturity date of May 22, 2007, at which time the debt will be retired with the proceeds of the debenture.
- (e) This financing consists of a fixed rate operating loan, and is subject to refinancing that will have a maturity date of May 31, 2007, at which time, the debt will be retired with the proceeds of the debenture. An interest rate swap agreement has been entered into for \$14,500 for Essex Hall and \$15,200 for Elgin Hall's financing which fixes the effective interest rate at 5.50% over the period ending January 1, 2022.
- (f) This financing consists of a fixed rate operating loan, and is subject to refinancing that will have a maturity date of May 31, 2007, at which time, the debt will be retired with the proceeds of the debenture. 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.
- (g) This financing consists of a fixed rate operating loan, and subject to refinancing with a maturity date of June 19, 2007, at which time, the debt will be retired with the proceeds of the debenture.
- (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 2008.
- (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 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 2007 was \$191 (2005 - \$33), reducing the investment by the bank to \$10,587. 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 11, 2007 and bears interest at the rate of 4.71%. A comfort letter has been provided by The University of Western Ontario. On July 11, 2007 the fixed rate operating loan was renewed for 180 days at the rate of 5.11%.

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

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
(thousands of dollars)

- (k) The fair value of long-term debt at April 30, 2007 was \$132,487 (2006 – \$132,630) compared to a carrying amount of \$126,181 (2006 - \$127,198).
- (l) Anticipated requirements to meet the principal portion of the debt repayments over the next five years are as follows:

	Principal
2008	\$ 99,382
2009	1,538
2010	11,507
2011	711
2012	662
Subsequent years	12,381
	<u>\$ 126,181</u>

8. DEFERRED CONTRIBUTIONS

Deferred contributions consist of the following:

	2007	2006
Unspent research grants	\$ 53,320	\$ 46,641
Other restricted funds	68,136	60,702
Balance, end of year	<u>\$ 121,456</u>	<u>\$ 107,343</u>

9. DEFERRED CAPITAL CONTRIBUTIONS

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

	2007	2006
Balance, beginning of year	\$ 282,938	\$ 255,362
Less amortization of deferred capital contributions	(24,601)	(23,887)
Add contributions received during the year	39,256	51,463
Balance, end of year	<u>\$ 297,593</u>	<u>\$ 282,938</u>

Represented by:

Amounts used for the purchase of capital assets	\$ 296,846	\$ 282,510
Amounts to be spent on capital assets	747	428
	<u>\$ 297,593</u>	<u>\$ 282,938</u>

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Year Ended April 30, 2007
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10. UNRESTRICTED NET ASSETS

Details of the unrestricted net assets are as follows:

	2007	2006
Undistributed investment returns	\$ 67,966	\$ 47,518
Operating fund surplus	8,953	7,311
Provision for vacation pay	(6,694)	(6,307)
Operating deficit - related organizations	(23,206)	(20,058)
Provision for employee future benefits	(188,170)	(173,225)
Balance, end of year	\$ (141,151)	\$ (144,761)

11. INTERNALLY RESTRICTED NET ASSETS

Details of the internally restricted net assets are as follows:

	2007	2006
Departmental carry forwards	\$ 45,482	\$ 47,539
Capital reserve	51,204	37,114
Operating surplus – ancillary and support units	15,049	12,628
Faculty and research trust funds	14,638	12,356
Equipment reserves	11,593	10,726
Self-insurance funds	1,055	940
Balance, end of year	\$ 139,021	\$ 121,303

- 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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Year Ended April 30, 2007
(thousands of dollars)

12. INVESTMENT IN CAPITAL ASSETS

The investment in capital assets consists of the following:

	2007	2006
Capital assets [note 4]	\$ 628,246	\$ 569,976
Less amounts financed by		
Debt [note 7]	(126,181)	(127,198)
Deferred capital contributions [note 9]	(296,846)	(282,510)
	<u>\$ 205,219</u>	<u>\$ 160,268</u>

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

	2007	2006
Amortization of deferred capital contributions	\$ 24,601	\$ 23,887
Amortization of capital assets	(53,139)	(51,542)
	<u>(28,538)</u>	<u>(27,655)</u>
Purchase of capital assets	110,953	105,446
Amounts funded by:		
Debt	(8,600)	(20,505)
Deferred capital contributions	(38,937)	(51,035)
Repayment of debt	9,617	23,021
	<u>73,033</u>	<u>56,927</u>
Non-depreciable assets donated to The University	456	300
Change in investment in capital assets	<u><u>\$ 44,951</u></u>	<u><u>\$ 29,572</u></u>

The net book value from the sale of an asset is netted against capital purchases.

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13. ENDOWMENTS

Net assets restricted for endowment consist of the following:

	2007	2006
Externally Endowed	\$ 291,437	\$ 250,055
Internally Endowed	17,579	16,523
	<u>\$ 309,016</u>	<u>\$ 266,578</u>

Represented by:

Endowed funds	\$ 252,118	\$ 228,010
Accumulated reinvestment returns	56,898	38,568
	<u>\$ 309,016</u>	<u>\$ 266,578</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.

	2007	2006
Schedule of Changes in Endowment Fund Balance		
Fund balance, beginning of year	\$ 36,707	\$ 33,813
Cash donations received	39	9
Preservation of capital	2,639	2,885
Fund balance, end of year	<u>\$ 39,385</u>	<u>\$ 36,707</u>

Schedule of Changes in Expendable Funds Available for Awards

Fund balance, beginning of year	\$ 1,294	\$ 1,427
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	2,517	882
Expendable donations	8	-
Bursaries awarded [768 (2006 – 774)]	(1,643)	(1,015)
Balance, end of year	<u>\$ 2,176</u>	<u>\$ 1,294</u>
Endowment total based on book value	<u>\$ 41,561</u>	<u>\$ 38,001</u>

The fair value of the endowment as at April 30, 2007 was \$41,924.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
(thousands of dollars)

(b) ONTARIO STUDENT OPPORTUNITY TRUST FUND – PHASE II

	2007 UWO	2007 Affiliates	2006 UWO	2006 Affiliates
Schedule of Changes in Endowment Fund Balances				
Fund balance, beginning of year	\$ 14,306	\$ 1,441	\$ 19,339	\$ 1,994
Donations received	191	1	-	-
MTCU matching funds received	-	-	354	(354)
Donations transferred to OTSS	-	-	(6,002)	(202)
Preservation of capital	590	26	615	3
Fund balance, end of year	\$ 15,087	\$ 1,468	\$ 14,306	\$ 1,441
Schedule of Changes in Expendable Funds Available for Awards				
Fund balance, beginning of year	\$ 593	\$ 88	\$ 181	\$ 26
Realized investment income, net of direct investment related expenses and preservation of capital	1,132	98	1,580	100
Expendable contributions received	-	-	2	-
Bursaries awarded [270 (2006 – 145)]	(1,263)	(59)	(1,170)	(38)
Fund balance, end of year	\$ 462	\$ 127	\$ 593	\$ 88
Endowment total based on book value	\$ 15,549	\$ 1,595	\$ 14,899	\$ 1,529

The fair value of the endowment as at April 30, 2007 was \$17,255.

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Notes to the Combined Financial Statements

Year Ended April 30, 2007
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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, 2007)

	2007 UWO	2007 Affiliates	2006 UWO	2006 Affiliates
Schedule of Changes in Endowment Fund Balances				
Fund balance, beginning of year	\$ 22,503	\$ 2,060	\$ -	\$ -
Eligible cash donations received	7,611	873	15,737	1,022
Matching funds received from MTCU	2,593	495	6,156	1,022
Preservation of capital	1,555	11	610	16
Fund balance, end of year	\$ 34,262	\$ 3,439	\$ 22,503	\$ 2,060
Schedule of Changes in Expendable Funds Available for Awards				
Fund balance, beginning of year	\$ 92	\$ 5	\$ -	\$ -
Expendable donations	1	-	-	-
Realized investment income, net of direct investment-related	599	121	126	5
Bursaries awarded [50 (2006 – 6)]	(82)	(26)	(34)	-
Fund balance, end of year	\$ 610	\$ 100	\$ 92	\$ 5
Outstanding donations pledged	\$ 6,867	\$ 200	\$ 7,813	\$ 204

16. STATEMENT OF CASH FLOWS

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

	2007	2006
Accounts receivable	\$ (2,924)	\$ (10,812)
Inventories	(475)	(51)
Prepaid expenses	(168)	(1,640)
Accounts payable and accrued liabilities	1,803	(1,634)
Deferred fees and income	2,569	3,204
Net change in non-cash working capital	\$ 805	\$ (10,933)

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2007
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17. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

(a) 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.

(b) Capital commitments

The estimated cost to complete capital projects in progress at April 30, 2007 is approximately \$94,923 (2006 - \$49,330).

(c) Subsequent Events

i) On May 24, 2007 The University issued Series A Senior Unsecured Debentures in the aggregate principal amount of \$190,000. The debentures bear interest at 4.798% which is payable semi-annually on May 24 and November 24 with the principal amount to be repaid on May 24, 2047. The proceeds of the issue are to be used to retire certain existing capital debt and to finance new capital projects. The existing debt that was retired in May and June of 2007, included loans related to London Hall Residence, Essex Hall Residence, Elgin Hall Residence, Perth Hall Residence and NCMRD Expansion.

ii) Effective July 1, 2007, ownership of the Robarts Research Institute transferred to The University of Western Ontario in accordance with the agreement between the Board of Governors, the University of Western Ontario and Robarts Research Institute. Robarts will join The University as an Institute in the Schulich School of Medicine and Dentistry.

(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 \$5,000 of liability coverage per occurrence with \$15,000 and \$5,000 excess coverages. 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 coverages, members of CURIE are insured by various insurance companies to a limit of \$745,000. For errors or omissions insurance CURIE pools the risk of its members and carries \$5,000 of coverage with additional excess coverages of \$15,000 and \$5,000.

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Notes to the Combined Financial Statements

Year Ended April 30, 2007
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18. PLEDGES

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

	Pledges	
2008 -	\$	21,324
2009 -		10,998
2010 -		8,574
subsequent years -		19,020
	\$	<u>59,916</u>