

Financial Highlights

April 30, 2004

Executive Summary

The University's revenues increased by \$93.5 million (15.9%) during the year. Grants and contracts (government and other) represent 46% of the total revenues. The Provincial Government provided increased operating grants by \$13.9 million to accommodate the enrolment growth associated with the double/increased cohort through the accessibility fund and quality assurance fund. The Federal Government funding for the increased cost of research (FFICR) \$5.7 million was the largest component of the restricted grant increase of \$27.0 million.

The equity markets had a recovery in 2003-04. The University's portfolio earned a return of 19.5% versus -8.8% in the prior year. Investment returns for the year were \$53.9 million, of which \$37.9 million was investment income and \$16.0 million (net of the 5% allocation for spending of \$8.8 million) was added directly to endowments.

On the expenditure side, total expenses increased \$52.6 million (7.0%) over the previous year. Sixty percent of the Universities resources are spent on salaries and benefits, which increased \$22.5 million (6.4%). Scholarships, fellowships and bursaries increased \$6.8 million (18.5%). This increase is due to increased enrolments and the mandated set-aside of 30% of additional tuition fee revenue for student aid.

The excess of revenue over expenses was \$55.7 million. This excess is primarily due to the improved investment returns and departments spending less than planned. During the remaining years of the four-year planning period (2004- 05 to 2006-07) these funds will be drawn down as we achieve our staff and faculty recruitment targets.



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 Board members, six of whom are not 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, 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

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Vice-President - Administration



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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, 2004 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, 2004 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 19, 2004

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Financial Position

Statement 1

As at April 30, 2004, with comparative amounts for 2003
(thousands of dollars)

	2004	2003
	\$	\$
Assets		
Cash	1,667	1,866
Accounts receivable	44,944	32,841
Inventories	5,083	5,608
Prepaid expenses	9,163	2,157
Investments [note 3]	399,869	333,888
Capital assets [note 4]	470,919	420,184
	<u>931,645</u>	<u>796,544</u>
Liabilities and deferred contributions		
Bank indebtedness [note 5]	6,879	9,920
Accounts payable and accrued liabilities	56,341	65,582
Deferred fees and income	27,721	26,024
Employee future benefits [note 6]	148,297	140,155
Debt [note 7]	124,962	110,233
Deferred contributions [note 8]	109,518	83,223
Deferred capital contributions [note 9]	228,475	217,765
	<u>702,193</u>	<u>652,902</u>
Net assets [Statement 3]	<u>229,452</u>	<u>143,642</u>
	<u>931,645</u>	<u>796,544</u>

See accompanying notes to the combined financial statements.

Commitments and contingencies [note 18].

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Operations

Statement 2

For the year ended April 30, 2004, with comparative amounts for 2003
(thousands of dollars)

	<u>2004</u>	<u>2003</u>
	\$	\$
Revenues		
Government grants for general operations	167,472	153,550
Restricted government grants and other grants and contracts	128,191	101,021
Student fees	191,129	181,532
Sales and services	114,731	107,035
Donations [note 10]	17,411	23,291
Recoverable salaries and benefits	11,426	10,902
Investment returns/(losses) [note 3(b)]	37,851	(1,432)
Other revenues	12,142	10,933
	<u>680,353</u>	<u>586,832</u>
Expenses		
Salaries and benefits	374,204	351,734
Operating costs	94,805	88,242
Amortization of capital assets	44,141	40,495
Scholarships, fellowships and bursaries	43,561	36,770
Cost of sales and services	32,272	31,436
Taxes and utilities	17,950	18,833
Repairs and maintenance	11,457	10,462
Interest	6,285	5,773
	<u>624,675</u>	<u>583,745</u>
Excess of revenues over expenses	<u>55,678</u>	<u>3,087</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, 2004, with comparative amounts for 2003
(thousands of dollars)

	2004				2003	
	Unrestricted [note 11] \$	Internally Restricted [note 12] \$	Investment in Capital Assets [note 13] \$	Endowments [note 14] \$	Total \$	Total \$
Net assets, beginning of year	(167,723)	52,602	111,414	147,349	143,642	149,659
Excess of revenues over expenses	55,678	-	-	-	55,678	3,087
Change in internally restricted net assets	(24,465)	24,465	-	-	-	-
Change in investment in capital assets [note 13]	(5,802)	-	6,068	-	266	514
Transfer to internally endowed	(2,173)	-	-	2,173	-	-
Allocation of internally endowed returns	632	-	-	(632)	-	-
Investment returns/(losses) allocated to external endowments [note 3(b)]	-	-	-	24,839	24,839	(11,883)
Allocation for spending from accumulated reinvestment income [note 3(b)]	-	-	-	(8,779)	(8,779)	(7,674)
Endowment contributions [note 10]	-	-	-	13,806	13,806	9,939
Net assets, end of year	<u>(143,853)</u>	<u>77,067</u>	<u>117,482</u>	<u>178,756</u>	<u>229,452</u>	<u>143,642</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, 2004, with comparative amounts for 2003
(thousands of dollars)

	2004	2003
	\$	\$
Operating activities		
Excess of revenues over expenses	55,678	3,087
Add/(deduct) non-cash items		
Amortization of capital assets	44,141	40,495
Amortization of deferred capital contributions	(18,896)	(17,225)
Change in unrealized investment gains	(36,603)	39,574
Employee future benefits	8,142	7,096
Net change in non-cash working capital [note 16]	(26,127)	14,191
Cash provided by operating activities	<u>26,335</u>	<u>87,218</u>
Investing and financing activities		
Net change in investments	(29,379)	163
Purchase of capital assets	(95,067)	(98,622)
Proceeds on disposal of capital assets	457	715
Receipt of deferred capital contributions	29,606	30,815
Net change in deferred contributions	26,295	(14,104)
Change in capitalized income	24,839	(11,883)
Allocation of spending from endowment	(8,779)	(7,674)
Repayment of debt	(4,261)	(8,849)
Receipt of debt	18,990	15,051
Endowment contributions	13,806	9,939
Cash used in investing and financing activities	<u>(23,493)</u>	<u>(84,449)</u>
Net increase in cash	2,842	2,769
Cash position, beginning of year	(8,054)	(10,823)
Cash position, end of year	<u>(5,212)</u>	<u>(8,054)</u>
Represented by:		
Cash	1,667	1,866
Bank indebtedness	(6,879)	(9,920)
	<u>(5,212)</u>	<u>(8,054)</u>

See accompanying notes to the combined financial statements.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2004
(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), The University of Western Ontario Research & Development Park, Windermere Manor Ltd., 6027334 Canada Inc. (Newco), The Siebens - Drake Research Institute and related foundations in which The University has an economic interest, including: Foundation Western, The University of Western Ontario Foundation Inc., and The University of Western Ontario Foundation.

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 of the University of Western Ontario and Huron University College), or the net assets of the Pension Funds and the Retirement Income Fund Program of the Academic Staff and Administrative Staff of The University.

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.

Gifts of capital assets are recorded at fair market value at the date of receipt and the related

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2004
(thousands of dollars)

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 real estate and strip bonds, are recorded in the accounts at market value. Unrealized gains/(losses) are included in investment income. Strip bonds are recorded at cost plus accrued interest at their effective yield. Real estate held for resale is accounted for at the lower of cost and net realizable value.

Investment income includes interest, dividends, realized and unrealized gains and losses.

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

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

The University protects the capital value of the endowments by limiting the amount of income made available for spending and requiring the reinvestment of this income, 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 income. For individual endowment funds without sufficient accumulated reinvestment income, 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 income.

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Year Ended April 30, 2004
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(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.

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
(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:

	2004		2003	
	Market Value	Cost	Market Value	Cost
Short-term investments	\$ 71,353	\$ 71,351	\$ 60,661	\$ 60,655
Government bonds	90,426	88,759	84,464	83,106
Corporate bonds	35,394	34,563	32,238	31,592
Canadian equities	61,999	50,143	54,950	56,235
U.S. equities	76,035	76,377	60,707	70,759
Non-North American equities	51,695	50,729	39,532	52,190
Hedge funds	12,967	13,392	-	-
Real estate	-	-	1,336	1,336
	<u>\$ 399,869</u>	<u>\$ 385,314</u>	<u>\$ 333,888</u>	<u>\$ 355,873</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, 2004, of \$5,569 (2003 - \$5,005). The market value of these bonds as at April 30, 2004 was \$8,048 (2003 - \$7,274).

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

	2004	2003
Investment returns/(loss)	\$ 53,911	\$ (20,989)
Investment (returns)/loss allocated to external endowments	(24,839)	11,883
Allocation for spending from accumulated reinvestment income	8,779	7,674
	<u>\$ 37,851</u>	<u>\$ (1,432)</u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
(thousands of dollars)

4. CAPITAL ASSETS

Capital assets consist of the following:

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Building & roads	\$ 490,514	\$ 191,075	\$ 299,439	\$ 413,793	\$ 178,968	\$ 234,825
Equipment & furnishings	272,204	174,309	97,895	249,598	159,779	89,819
Library books	141,712	128,119	13,593	137,453	120,985	16,468
Construction in progress	40,757		40,757	61,472		61,472
Land	9,247		9,247	7,910		7,910
Works of arts	9,988		9,988	9,690		9,690
	<u>\$ 964,422</u>	<u>\$ 493,503</u>	<u>\$ 470,919</u>	<u>\$ 879,916</u>	<u>\$ 459,732</u>	<u>\$ 420,184</u>

The University maintains a collection of art that is insured for \$10,052. During the year, paintings were donated to The University with a total appraised value of \$266 (2003 - \$514).

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 \$1,189,452 (2003 - \$1,130,810); contents is \$1,379,650 (2003 - \$1,313,308), which amount includes library books of \$1,011,865 (2003 - \$948,975).

The estimated cost to complete capital projects in progress at April 30, 2004 is approximately \$58,100 (2003 - \$110,623).

5. BANK INDEBTEDNESS

Bank indebtedness includes bank overdrafts 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. As at April 30, 2004, The University has drawn \$2,005 (2003 - \$5,345) against this facility.

Ivey Management Services' overdraft facility is covered by a general security agreement. Ivey Management Services may borrow up to \$5,250 (2003 - \$5,250) at the bank's prime rate. As at April 30, 2004, \$4,874 (2003 - \$4,575) has been drawn against this facility.

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
(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, 2004 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 \$148,297 (2003 - \$140,155). This liability has been recorded in the combined financial statements.

Total expense for these plans is \$8,142 (2003 - \$7,096). Benefits paid during the year amounted to \$5,421 (2003 - \$4,693).

(ii) Pension plans:

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

	2004	2003
Accrued benefit obligation:		
Faculty members	\$ 7,538	\$ 7,944
Staff members	2,746	2,982
	<u>\$ 10,284</u>	<u>\$ 10,926</u>
Fair value of plan assets:		
Faculty members	9,887	10,375
Staff members	2,714	3,019
	<u>\$ 12,601</u>	<u>\$ 13,394</u>
Funded status – surplus	<u>\$ 2,317</u>	<u>\$ 2,468</u>

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

	2004	2003
Employer contributions	\$ 17,480	\$ 16,170
Employee contributions	8,861	8,341
	<u>\$ 26,341</u>	<u>\$ 24,511</u>

Total expense for these plans is \$59,409 (2003 - \$36,552). Benefits paid during the year amounted to \$57,280 (2003 - \$35,284).

(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	
	2004	2003	2004	2003
Discount rate	6.25%	6.75%	6.25%	6.00%
Expected long-term rate of return on plan assets	-	-	6.25%	6.00%
Rate of compensation increase	4.00%	4.00%	3.75%	2.00%
Medical cost increases:				
Hospital	5.00%	9.00%	-	-
Drug	10.00%	9.00%	-	-
Other Medical	5.00%	4.50%	-	-
Dental cost	4.50%	4.50%	-	-

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

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
(thousands of dollars)

7. DEBT

	Maturity	Interest Rate at April 30, 2004	Annual Payments (Principal and Interest)	2004 Principal Outstanding	2003 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	\$ 8,013	\$ 8,085
Glenmore Complex	Dec 1, 2019	6.25%	500	5,014	5,193
Delaware Hall	Sept 1, 2011	5.38%	134	726	817
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	303	313
Total mortgages			\$ 2,478	\$ 24,806	\$ 25,158

(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 2, 2004	2.32%		\$ 32,100	\$ 21,300
Elgin Hall [note (e)]				-	11,600
Perth Hall [note (e)]	May 18, 2004	2.28%		23,260	17,035
Capital					
SuperBuild Projects [note (e)]	May 18, 2004	2.28%		7,970	-
Dental and Medical Facilities [note (e)]	May 18, 2004	2.28%		5,270	1,055
Telecommunications System [note (f)]	May 2, 2004	2.42%		3,000	3,500
NCMRD Expansion [note (e)]	May 18, 2004	2.28%		2,150	2,440
New Child Care Facility [note (e)]	May 18, 2004	2.28%		580	-
Other Capital Projects [note (e)]				-	170
Other					
University Community Centre [note (g)]	June 29, 2004	2.25%		5,470	6,870
Related Corporations					
Research Park					
(i) Preferred Shares [note (h)]	Oct. 16, 2007			10,931	10,931
(ii) Operating Loan [note (h)]	May 27, 2004	2.91%		3,500	3,500
Richard Ivey School of Business Foundation					
(i) Bankers' Acceptances [note (i)]	Oct. 19, 2004	2.65%		5,800	6,100
(ii) Demand Loan [note (i)]	April 30, 2004	prime+1/2%		125	574
Total loans payable				\$ 100,156	\$ 85,075
Total debt				\$ 124,962	\$ 110,233

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
(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 \$15,700 for Essex Hall and \$16,400 for Elgin Hall's financing which fixes the effective interest rate at 5.50% over the period ending January 1, 2022.
- (e) These financings consist of public sector term loans, which are for 30 day terms and subject to refinancing during the coming year.
- (f) 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.
- (g) 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.
- (h) 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. 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 May 27, 2004 and bears interest at the rate of 2.91%. A comfort letter has been provided by The University of Western Ontario. On May 28, 2004 this loan has been renewed to November 22, 2004.

- (i) 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, 2004
(thousands of dollars)

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

	Principal
2005	\$ 4,376
2006	7,645
2007	6,486
2008	6,863
2009	7,095
Subsequent years	92,497
	<u>\$ 124,962</u>

8. DEFERRED CONTRIBUTIONS

Deferred contributions consist of the following:

	2004	2003
Unspent research grants	\$ 60,778	\$ 41,337
Other restricted funds	48,740	41,886
Balance, end of year	<u>\$ 109,518</u>	<u>\$ 83,223</u>

9. DEFERRED CAPITAL CONTRIBUTIONS

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

	2004	2003
Balance, beginning of year	\$ 217,765	\$ 204,175
Less amortization of deferred capital contributions	(18,896)	(17,225)
Add contributions received during the year	29,606	30,815
Balance, end of year	<u>\$ 228,475</u>	<u>\$ 217,765</u>

Represented by:

Amounts used for the purchase of capital assets	\$ 228,475	\$ 198,537
Amounts to be spent on capital assets	-	19,228
	<u>\$ 228,475</u>	<u>\$ 217,765</u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
(thousands of dollars)

10. DONATIONS

Donations received during the year have been recognized as follows:

	2004	2003
Combined Statement of Operations	\$ 17,411	\$ 23,291
Externally restricted endowments	13,806	9,939
Change in deferred contributions	7,967	3,850
	<u>\$ 39,184</u>	<u>\$ 37,080</u>

11. UNRESTRICTED NET ASSETS

Details of the unrestricted net assets are as follows:

	2004	2003
Operating fund surplus	\$ 16,154	\$ 7,294
Accumulated investment returns/(losses)	11,760	(11,466)
Provision for vacation pay	(5,474)	(5,097)
Operating deficit - related organizations	(17,996)	(18,299)
Provision for employee future benefits	(148,297)	(140,155)
Balance, end of year	<u>\$ (143,853)</u>	<u>\$ (167,723)</u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
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12. INTERNALLY RESTRICTED NET ASSETS

Details of the internally restricted net assets are as follows:

	2004	2003
Departmental carry forwards	\$ 41,590	\$ 24,449
Faculty and research trust funds	9,158	7,320
Capital reserve	8,923	4,548
Operating surplus – ancillaries & support units	8,523	8,367
Equipment reserves	8,242	7,082
Self-insurance funds	631	836
Balance, end of year	\$ 77,067	\$ 52,602

- 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) Faculty and research trust funds include donations and other income with no external restrictions that departments are permitted to carry forward.
- iii) The capital reserve represents funds restricted for capital purposes.
- iv) Ancillary and support unit carry forwards represent income that these units 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, 2004
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13. INVESTMENT IN CAPITAL ASSETS

The investment in capital assets consists of the following:

	2004	2003
Capital assets [note 4]	\$ 470,919	\$ 420,184
Less amounts financed by		
Debt [note 7]	(124,962)	(110,233)
Deferred capital contributions [note 9]	(228,475)	(198,537)
	<u>\$ 117,482</u>	<u>\$ 111,414</u>

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

	2004	2003
Amortization of deferred capital contributions	\$ 18,896	\$ 17,225
Amortization of capital assets	(44,141)	(40,495)
	<u>(25,245)</u>	<u>(23,270)</u>
Purchase of capital assets	95,067	98,622
Amounts funded by:		
Debt	(18,990)	(15,051)
Deferred capital contributions	(48,834)	(48,419)
Repayment of debt	4,261	8,849
Disposal of capital assets	(457)	(715)
	<u>31,047</u>	<u>43,286</u>
Non-depreciable assets donated to The University	266	514
Change in investment in capital assets	<u><u>\$ 6,068</u></u>	<u><u>\$ 20,530</u></u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
(thousands of dollars)

14. ENDOWMENTS

Net assets restricted for endowment consist of the following:

	2004	2003
Externally Endowed	\$ 163,679	\$ 133,814
Internally Endowed	15,077	13,535
	<u>\$ 178,756</u>	<u>\$ 147,349</u>
Represented by:		
Endowed funds	\$ 158,748	\$ 144,728
Accumulated reinvestment income	20,008	2,621
	<u>\$ 178,756</u>	<u>\$ 147,349</u>

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
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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.

	2004	2003
Schedule of Changes in Endowment Fund Balance		
Balance, beginning of year	\$ 29,781	\$ 35,069
Cash donations received	2	24
Transfer to other endowments	(50)	-
Investment income (loss) capitalized	3,686	(5,312)
Balance, end of year	\$ 33,419	\$ 29,781

Schedule of Changes in Expendable Funds Available for Awards

Balance, beginning of year	\$ 1,419	\$ 1,270
Allocations for spending	1,009	1,884
Bursaries awarded [815 (2003 – 743)]	(937)	(1,735)
Balance, end of year	\$ 1,491	\$ 1,419

b) ONTARIO STUDENT OPPORTUNITY TRUST FUND – PHASE II

(For the year ended March 31, 2004)

	UWO	Affiliates
Schedule of Changes in Endowment Fund Balance		
Cash donations received	\$ 3,142	\$ 454
MTCU matching funds received	1,152	192
Balance, end of year	\$ 4,294	\$ 646
Outstanding donations pledged	\$ 9,258	\$ 22

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
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16. STATEMENT OF CASH FLOWS

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

	2004	2003
Accounts receivable	\$ (12,102)	\$ 4,608
Inventories	525	(911)
Prepaid expenses	(7,006)	418
Accounts payable and accrued liabilities	(9,241)	9,500
Deferred fees and income	1,697	576
Net change in non-cash working capital	\$ (26,127)	\$ 14,191

17. 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.

	2004		2003	
	Carrying value	Fair Market Value	Carrying value	Fair Market Value
Debt	\$ 124,962	\$ 131,986	\$ 110,233	\$ 116,335

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
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18. COMMITMENTS AND CONTINGENCIES

(a) Guaranteed housing loans

At April 30, 2004, The University was guarantor of 9 housing loans for faculty and staff in the amount of \$113 (2003 - \$278). 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, 2004 is approximately \$58,100 (2003 - \$110,623).

(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.

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Notes to the Combined Financial Statements

Year Ended April 30, 2004
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19. PLEDGES

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

	Pledges
2005 -	\$ 35,171
2006 -	9,162
2007 -	6,422
subsequent years -	<u>23,909</u>
	<u>\$ 74,664</u>

20. COMPARATIVE AMOUNTS

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