

University of
Waterloo



Financial Statements

April 30, 2006

UNIVERSITY OF WATERLOO FINANCIAL STATEMENTS

APRIL 30, 2006

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STATEMENT OF MANAGEMENT RESPONSIBILITY

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

The financial statements have been prepared by management in accordance with generally accepted accounting principles recommended by the Canadian Institute of Chartered Accountants. Management believes the financial statements present fairly the University's financial position as at April 30, 2006 and the results of its operations for the year then ended.

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

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

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

Financial statements for the year ended April 30, 2006 have been audited by Ernst & Young LLP. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

AUDITORS' REPORT

To the Governors of the
University of Waterloo:

We have audited the Balance Sheet [Statement 1] of the **University of Waterloo** as at April 30, 2006 and the following statements for the year then ended:

Statement 2 - Statement of Operations
Statement 3 - Statement of Changes in Net Assets
Statement 4 - Statement of Cash Flows

These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 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 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

We have also audited the supplementary Schedules 1 and 2 which are presented for purposes of additional analysis and are not a required part of the basic financial statements. In our opinion, these schedules present fairly the information contained therein in all respects material to the financial statements.

Kitchener, Canada,
August 3, 2006.

Ernst + Young LLP

Chartered Accountants

UNIVERSITY OF WATERLOO
BALANCE SHEET
APRIL 30, 2006
(with comparative figures as at April 30, 2005)
(thousands of dollars)

STATEMENT 1

	<u>2006</u>	<u>2005</u>
ASSETS		
<u>Current</u>		
Cash and cash equivalents	\$ 110,841	\$ 94,063
Accounts receivable	21,878	22,999
Inventories	2,896	2,984
Prepaid expenses	<u>3,886</u>	<u>4,048</u>
Total current assets	<u>139,501</u>	<u>124,094</u>
Investments (note 3)	347,309	253,168
Capital assets, net (note 4)	<u>264,121</u>	<u>251,884</u>
	<u><u>750,931</u></u>	<u><u>629,146</u></u>
LIABILITIES AND NET ASSETS		
<u>Current</u>		
Accounts payable and accrued liabilities	38,698	38,009
Unearned income	28,372	26,591
Current portion of long-term debt (note 5)	<u>1,324</u>	<u>1,246</u>
Total current liabilities	<u>68,394</u>	<u>65,846</u>
Employee future benefits (note 14)	<u>95,864</u>	<u>89,046</u>
Long-term debt (note 5)	<u>36,279</u>	<u>37,603</u>
Deferred contributions (note 6)	166,309	112,892
Deferred capital contributions (note 7)	<u>165,110</u>	<u>156,337</u>
	<u>331,419</u>	<u>269,229</u>
Total liabilities	<u>531,956</u>	<u>461,724</u>
NET ASSETS		
Deficit (note 8)	(98,231)	(90,913)
Internally restricted (note 9)	89,575	72,576
Invested in capital assets (note 10)	70,312	65,807
Restricted for endowment purposes (note 11)	<u>157,319</u>	<u>119,952</u>
	<u>218,975</u>	<u>167,422</u>
	<u>\$ 750,931</u>	<u>\$ 629,146</u>

(See accompanying notes to financial statements)

UNIVERSITY OF WATERLOO
 STATEMENT OF OPERATIONS
 for the year ended April 30, 2006
 (with comparative figures for the year ended April 30, 2005)
 (thousands of dollars)

STATEMENT 2

	<u>2006</u>	<u>2005</u>
INCOME		
Academic fees	\$ 146,878	\$ 141,116
Donations	9,881	8,318
Grants and contracts	271,287	250,500
Sales, services and other income	100,254	90,177
Income from investments (note 3)	14,882	11,270
Amortization of deferred capital contributions (note 7)	<u>15,324</u>	<u>16,198</u>
	<u>558,506</u>	<u>517,579</u>
EXPENSES		
Salaries	267,947	250,203
Employee benefits	55,214	48,470
Cost of goods sold	20,017	20,128
Supplies and expenses	66,916	63,441
Travel	13,902	12,263
Major repairs and renovations	15,989	15,760
Expendable equipment, maintenance and rentals	19,014	22,266
Scholarships and bursaries	40,630	33,811
Municipal taxes and utilities	15,255	13,457
Amortization of capital assets (note 4)	<u>24,947</u>	<u>24,249</u>
	<u>539,831</u>	<u>504,048</u>
Excess income over expenses	<u>\$ 18,675</u>	<u>\$ 13,531</u>

(See accompanying notes to financial statements)

UNIVERSITY OF WATERLOO
 STATEMENT OF CHANGES IN NET ASSETS
 for the year ended April 30, 2006
 (with comparative figures for the year ended April 30, 2005)
 (thousands of dollars)

STATEMENT 3

	<u>Deficit</u>	<u>Internally Restricted</u>	<u>Invested in Capital Assets</u>	<u>Restricted for Endowment</u>	<u>2006 Total</u>	<u>2005 Total</u>
Net assets, beginning of year	\$ (90,913)	\$ 72,576	\$ 65,807	\$ 119,952	\$ 167,422	\$ 129,161
Excess income over expenses for the year	18,675				18,675	13,531
Change in internally restricted net assets (note 9)	(16,999)	16,999				
Land donation in kind						350
Change in invested in capital assets (note 10)	(4,505)		4,505			
Capital preservation of endowments (note 11)	(4,489)			4,489		
Endowment contributions (note 11)				32,878	32,878	24,380
Net assets, end of year	<u>\$ (98,231)</u>	<u>\$ 89,575</u>	<u>\$ 70,312</u>	<u>\$ 157,319</u>	<u>\$ 218,975</u>	<u>\$ 167,422</u>

(See accompanying notes to financial statements)

UNIVERSITY OF WATERLOO
STATEMENT OF CASH FLOWS
for the year ended April 30, 2006
(with comparative figures for the year ended April 30, 2005)
(thousands of dollars)

STATEMENT 4

	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES		
Excess income over expenses for the year	\$ 18,675	\$ 13,531
Add (deduct) non-cash items:		
Amortization of capital assets (note 4)	24,947	24,249
Amortization of deferred capital contributions (note 7)	(15,324)	(16,198)
Net change in employee future benefits (note 14)	6,818	6,600
Net change in non-cash working capital balances (note 15)	<u>57,258</u>	<u>28,390</u>
Cash provided by operating activities	<u>92,374</u>	<u>56,572</u>
INVESTING AND FINANCING ACTIVITIES		
Purchase of capital assets (note 4)	(37,184)	(22,580)
Net change in investments (note 3)	(94,141)	(83,946)
Contributions received for capital purposes (note 7)	24,097	19,391
Repayment of long-term debt (note 5)	(1,246)	(6,436)
Endowment contributions (note 11)	<u>32,878</u>	<u>24,380</u>
Cash used in investing and financing activities	<u>(75,596)</u>	<u>(69,191)</u>
Net change in cash and cash equivalents during the year	16,778	(12,619)
Cash and cash equivalents, beginning of year	<u>94,063</u>	<u>106,682</u>
Cash and cash equivalents, end of year (note 2(b))	<u>\$ 110,841</u>	<u>\$ 94,063</u>

(See accompanying notes to financial statements)

UNIVERSITY OF WATERLOO
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2006
(thousands of dollars)

1. Description

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

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

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

2. Significant Accounting Policies

(a) Income recognition

The University follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as income when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as income in the year in which the related expenses are incurred. Endowment contributions and land donations in kind are recognized as direct increases in net assets in the period in which they are received. Restricted investment

income is recognized as income in the year in which the related expenses are incurred. Unrestricted investment income is recognized as income when earned. All other unrestricted income, including academic fees and sales and services, is recognized as income when earned.

(b) Cash and cash equivalents

Investments included in cash and cash equivalents consist of deposit receipts (\$2,226; 2005 - \$16,978), government and corporate notes with a maturity of three months or less from the date of acquisition (\$68,877; 2005 - \$45,847), and the remainder represents cash. These investments are carried at amortized cost which approximates their market value.

(c) Inventories

Inventories are valued at the lower of average cost or market value. Provision is made for obsolescence.

(d) Investments

Investments are recorded at cost. Gains and losses on sale of investments are recognized in the year of disposal and included in investment income based on the deferral method of accounting, as described in note 2(a). Investments are written down in the year when there is deemed to be a loss in value that is other than temporary.

(e) Capital assets

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

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

Amortization of building costs commences in the fiscal year following occupancy.

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

Collections are recorded at cost and not amortized.

(f) Unearned income

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

(g) Employee future benefits

The University has a defined benefit pension plan for its employees and provides other retirement and post employment benefits such as extended health care and life insurance coverage. The cost of employee future benefits is determined using the projected benefit method prorated on services and management's best estimates regarding assumptions about retirement age, termination rates, mortality rates and expected health care costs. The net actuarial gain or loss is amortized on a straight-line basis over the average remaining service life of the active employees calculated using the corridor method.

(h) Funding of major capital assets and renovations

University departments, including ancillary enterprises, may be required to expend funds on major capital assets or renovations in a year where the costs exceed the unit's ability to pay. These major expenditures are, however,

charged to the unit in the year incurred and the resulting deficit is to be recovered over time through the budgeting process.

(i) Accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These amounts are based on management's best knowledge of current events and actions that the University may undertake in the future. Actual results could differ from those estimates.

(j) Derivative financial instruments

Derivative financial instruments are used to manage particular market and currency exposures for hedging and risk management purposes with respect to the University's investments and as a substitute for more traditional investments. Derivative financial instruments that may be employed include interest rate swaps. These contracts are supported by liquid assets with a market value approximately equal to the market value of the instruments underlying the derivative contract.

The University follows hedge accounting for its interest rate swap which results in interest expense related to certain long-term debt recorded in the financial statements at the hedged rate rather than at the original contractual interest rate. In order for a derivative to qualify for hedge accounting, the hedge relationship must be identified, designated and formally documented at its inception. Changes in the cash flows on the interest rate swap must be highly effective in offsetting changes in the amount of cash flows on the hedged long-term debt. In the event a designated hedged long-term debt is extinguished or matures prior to the termination of the related interest rate swap, any realized or unrealized gain or loss on such interest rate swap is recognized in income.

The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments, thereby taking into account the current unrealized gains or losses on open contracts. Investment dealer quotes or quotes from a bank are available for the University's derivative financial instruments.

3. Investments

(a) Total investments consist of the following components:

	<u>Book Value</u>	
	<u>2006</u>	<u>2005</u>
Bonds		
Government of Canada	\$ 26,154	\$ 29,880
Provincial	41,170	43,250
Corporate	<u>50,430</u>	<u>52,333</u>
Total Bonds	117,754	125,463
Pooled Funds	55,135	18,362
Short-Term Investments	91,738	32,388
Equity Investments	<u>82,682</u>	<u>76,955</u>
Total Investments	<u>\$347,309</u>	<u>\$253,168</u>

	<u>2006</u>		<u>2005</u>	
	<u>Book Value</u>	<u>Book Yield</u>	<u>Book Value</u>	<u>Book Yield</u>
Bonds				
0-5 years	\$ 62,091	4.4	\$ 80,293	4.1
5-10 years	38,602	4.9	32,038	5.0
>10 years	<u>17,061</u>	5.5	<u>13,132</u>	5.7
	<u>\$117,754</u>		<u>\$125,463</u>	

Yields on fixed term investments are annual effective yields for the respective portfolios based on book value. The

market value of the total investment portfolio as at April 30, 2006 is \$347,721 (2005 - \$251,088).

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

	<u>2006</u>	<u>2005</u>
Income earned on unrestricted resources	\$ 8,071	\$5,628
Income earned on specific purpose funds	1,294	1,102
Income earned on resources held for endowment		
Internally endowed	2,025	1,778
Donor endowed	<u>6,712</u>	<u>4,550</u>
Total investment income earned	18,102	13,058
Investment income deferred in the year	<u>(3,220)</u>	<u>(1,788)</u>
Total investment income recognized in the year	<u>\$14,882</u>	<u>\$11,270</u>

4. Capital Assets

Capital assets consist of the following:

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 7,954	-	\$ 5,510	-
Buildings	312,573	137,839	303,440	131,703
Parking lots/roadways	3,161	1,640	3,161	1,442
Furniture and equipment	134,498	65,498	113,032	51,864
Library acquisitions	31,746	22,956	29,197	19,353
Collections	<u>2,122</u>	<u>-</u>	<u>1,906</u>	<u>-</u>
	492,054	227,933	456,246	204,362
Less accumulated amortization	<u>(227,933)</u>		<u>(204,362)</u>	
Net book value	<u>\$264,121</u>		<u>\$251,884</u>	

Included in the cost of buildings is \$12,734 (2005 - \$22,245) of construction in progress or recently completed projects that are currently not being amortized.

The increase in net book value of capital assets is due to the following:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$251,884	\$239,665
Land, building and equipment donation in kind	-	13,888
Purchase of capital assets funded by deferred capital contributions	24,097	14,127
Purchase of capital assets internally funded	13,087	8,453
Amortization of capital assets	<u>(24,947)</u>	<u>(24,249)</u>
Balance, end of year	<u>\$264,121</u>	<u>\$251,884</u>

5. Long-Term Debt

(a) Lease agreements payable

	<u>2006</u>		<u>2005</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Residence Ron Eydt Village: 6.9% agreement payable due December 1, 2020. Repayable in semi-annual instalments of \$135 combined principal and interest	\$2,506	\$2,919	\$2,599	\$3,061
UW Place: 6.9% agreement payable due June 1, 2021. Repayable in semi-annual instalments of \$259 combined principal and interest	4,882	5,710	5,054	5,977
<u>Mortgages and debentures payable</u>				
Canada Mortgage and Housing Corporation: Residence Village I, Phase I - 5 3/8% mortgage payable due July 1, 2016. Repayable in semi-annual instalments of \$56 combined principal and interest	896	932	957	1,002
Residence Village I, Phase II - 5 3/8% debenture payable due July 1, 2017. Repayable in semi-annual instalments of \$63 combined principal and interest	1,067	1,114	1,132	1,189
Residence Village I, Phase I Amended - 5 7/8% debenture payable due July 1, 2017. Repayable in semi-annual instalments of \$40 combined principal and interest	661	709	701	757
Minota Hagey Residence - 6 1/4% debenture payable due February 1, 2019. Repayable in semi-annual instalments of \$10 combined principal and interest	184	203	193	215

(c) Fair value

The fair value of the debt instruments above are estimated using a discounted cash flow calculation that uses approximate market interest rates at April 30, for debt instruments with similar characteristics. The interest rate swap contract results in the University fixing the long-term interest rate at 6.045% (2005 – 6.045%) on \$25,374 (2005 - \$25,936) of debt obligation which is exchanged with 60-90 day investment vehicles. The fair value of the interest rate swap contract is (\$2,539) (2005 – (\$3,358)).

6. Deferred Contributions

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

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$112,892	\$ 83,570
Amount recognized as income during the year	(56,889)	(44,606)
Amount received related to the following year	<u>110,306</u>	<u>73,928</u>
Balance, end of year	<u>\$166,309</u>	<u>\$112,892</u>

7. Deferred Capital Contributions

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

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$156,337	\$139,606
Less amortization of deferred capital contributions	(15,324)	(16,198)
Add: Cash contributions received for capital purposes	24,097	19,391
Donations in kind received for capital purposes (note 4)	<u>-</u>	<u>13,538</u>
Balance, end of year	<u>\$165,110</u>	<u>\$156,337</u>

8. Deficit

The deficit is comprised of the following balances:

	<u>2006</u>	<u>2005</u>
Operational surplus	\$ 4,010	\$ 4,341
Land donation in kind	350	350
Provision for vacation pay	(6,727)	(6,558)
Employee future benefits	<u>(95,864)</u>	<u>(89,046)</u>
	<u>\$(98,231)</u>	<u>\$(90,913)</u>

9. Internally Restricted Net Assets

	<u>2006</u>	<u>2005</u>
Academic and academic support department carryforwards and operational commitments	\$110,406	\$103,908
Ancillary enterprises	1,221	(2,140)
Research related activities	1,854	3,522
Other specific purpose funds	865	783
Bridge financing for housing and other construction projects	<u>(24,771)</u>	<u>(33,497)</u>
Balance, end of year	<u>\$ 89,575</u>	<u>\$ 72,576</u>

The University allows academic and academic support units to carryforward a maximum of 10% of their current year's operating budget. In addition, the University appropriates funds at year end to cover outstanding operational commitments.

10. Net Assets Invested in Capital Assets

The investment in capital assets consists of the following:

	<u>2006</u>	<u>2005</u>
Capital assets, net	\$264,121	\$251,884
Less amounts financed by:		
Long-term debt	(28,349)	(29,390)
Deferred capital contributions (note 7)	(165,110)	(156,337)
Land donation in kind	<u>(350)</u>	<u>(350)</u>
Balance, end of year	<u>\$ 70,312</u>	<u>\$ 65,807</u>

The change in invested in capital assets is calculated as follows:	<u>2006</u>	<u>2005</u>
Repayment of long-term debt	\$ 1,041	\$ 979
Purchase of capital assets internally funded	<u>13,087</u>	<u>8,453</u>
Increase in invested in capital assets	<u>14,128</u>	<u>9,432</u>
Amortization expense	24,947	24,249
Less amount of amortization expense related to capital assets purchased with restricted contributions	<u>(15,324)</u>	<u>(16,198)</u>
Decrease in invested in capital assets	<u>9,623</u>	<u>8,051</u>
Change in invested in capital assets	<u>\$ 4,505</u>	<u>\$ 1,381</u>

11. Net Assets Restricted for Endowment Purposes

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

Investment income on endowments is recorded in the statement of operations if it is available for spending at the discretion of the University or if the conditions of any restrictions have been met. Fundamental to the University's philosophy on endowments is the general principle of maintaining the purchasing power of all endowment funds. This preservation of capital is recorded in the statement of changes in net assets as a direct increase of endowment capital when this is a condition of the original donation. For internally restricted endowments and for externally restricted amounts for which the preservation of capital is not a condition of the original donation, the preservation of capital is recorded as either an increase in the deficit or a reduction of internally restricted net assets and an increase in the endowment capital.

(a) Contributions restricted for endowment consist of the following:

	<u>2006</u>	<u>Additions</u>	<u>2005</u>
Donor endowed	\$122,845	\$32,878	\$ 89,967
Internally endowed	<u>34,474</u>	<u>4,489</u>	<u>29,985</u>
	<u>\$157,319</u>	<u>\$37,367</u>	<u>\$119,952</u>

(b) Ontario Student Opportunity Trust Fund

The donor endowed balance includes funds provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid.

Schedule of Changes in Endowment Fund Balance	<u>Phase 1</u>		<u>Phase 2</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Fund balance, beginning of year	\$5,718	\$5,546	\$2,216	\$ 562
Cash donations and government matching received	-	-	-	1,648
Preservation of capital	<u>152</u>	<u>172</u>	<u>56</u>	<u>6</u>
	<u>\$5,870</u>	<u>\$5,718</u>	<u>\$2,272</u>	<u>\$2,216</u>
Schedule of Changes in Expendable Funds Available for Awards				
Balance, beginning of year	\$ 218	\$ 314	\$ 26	\$ -
Investment income	229	222	89	30
Bursaries awarded				
(Phase 1 total awarded 135; 2005 - 229)				
(Phase 2 total awarded 48; 2005 - 2)	<u>(174)</u>	<u>(318)</u>	<u>(73)</u>	<u>(4)</u>
Balance, end of year	<u>\$ 273</u>	<u>\$ 218</u>	<u>\$ 42</u>	<u>\$ 26</u>

12. Financial Information

	<u>General Operations</u>	<u>Ancillary Enterprises</u>	<u>Restricted and Other Specific Purposes</u>	<u>2006 Total</u>	<u>2005 Total</u>
Income	<u>\$356,903</u>	<u>\$66,108</u>	<u>\$135,495</u>	<u>\$558,506</u>	<u>\$517,579</u>
Expenses	339,663	61,563	163,101	564,327	510,361
Less capital asset balances included in expenses above	<u>(6,551)</u>	<u>(179)</u>	<u>(17,766)</u>	<u>(24,496)</u>	<u>(6,313)</u>
Expenses net of capital assets	333,112	61,384	145,335	539,831	504,048
Transfer of funds for capital asset purchases and other purposes	<u>(24,611)</u>	<u>(1,363)</u>	<u>25,974</u>	<u>-</u>	<u>-</u>
Excess income over expenses	<u>\$ (820)</u>	<u>\$ 3,361</u>	<u>\$ 16,134</u>	<u>\$ 18,675</u>	<u>\$ 13,531</u>

13. Commitments and Contingent Liabilities

(a) Canadian University Reciprocal Insurance Exchange

The University is a member of a self-insurance co-operative, named CURIE, in association with Canadian universities. Under this arrangement, a contractual agreement exists to share the property and liability insurance risks of member universities. The projected cost of claims is funded through members' premiums based on actuarial projections. As at December 31, 2005, CURIE had a surplus of \$11,175 (2004 - \$5,995), of which the University's pro rata share is approximately 3.6% (2004 - 3.6%) on an ongoing basis.

(b) Contractual obligations

The University has entered into a long-term land lease and operating agreement with Reid's Heritage Homes Ltd. for the construction and rental of student housing. The University has a two year commitment to rent units in the townhouse complex and after that a two year renewable commitment. Based on the number of units available for rent as at April 30, the following are the annual lease payments committed:

2007 - \$2,006; 2008 - \$2,019

(c) In the normal course of operations, the University is involved on an ongoing basis in various legal actions, the outcomes of which are indeterminable. In management's opinion, the resolution of such actions will not have a material adverse effect on the financial condition of the University.

14. Employee Future Benefits

The University has a defined benefit plan that provides pension, non-pension post retirement, and post employment benefits to eligible employees. The registered pension plan is based on years of credited service, highest average earnings in 36 consecutive months in the 10 years immediately preceding retirement, and the CPP average. Pension benefits will increase annually by the ratio between the average of each of the two previous years' indices of the Consumer Price Index, normally to a maximum of 5%.

Other retirement benefits are extended health care and life insurance. A plan also provides for long-term disability income benefits after employment, but before retirement.

The latest actuarial valuation for the registered pension plan was performed as of January 1, 2006, and for the retirement benefits plan as of May 1, 2004. The next required actuarial valuation for the registered pension plan will be January 1, 2009 and May 1, 2007 for the retirement benefits plan. The University has a practice of performing annual actuarial valuations for accounting purposes for the registered pension plan. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year.

The employee benefits expense for the year includes pension expense of \$18,164 (2005 - \$13,916) and other retirement benefits expense of \$6,818 (2005 - \$6,600).

Information about the University's defined benefit plan at April 30 is as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefits Plan</u>	<u>Pension Benefit Plan</u>	<u>Other Benefits Plan</u>
Accrued benefit obligation	\$784,109	\$113,600	\$741,298	\$101,653
Fair value of plan assets	<u>877,855</u>	<u>-</u>	<u>798,806</u>	<u>-</u>
Plan surplus(deficit)	93,746	(113,600)	57,508	(101,653)
Valuation allowance	(93,746)	-	(57,508)	-
Unamortized net actuarial loss	<u>-</u>	<u>17,736</u>	<u>-</u>	<u>12,607</u>
Accrued liability	<u>\$ -</u>	<u>\$(95,864)</u>	<u>\$ -</u>	<u>\$(89,046)</u>

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

	<u>2006</u>		<u>2005</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefits Plan</u>	<u>Pension Benefit Plan</u>	<u>Other Benefits Plan</u>
Accrued benefit obligation:				
Discount rate	6.5%	5.6%	6.5%	6.0%
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%
Rate of inflation	2.5%	2.5%	2.5%	2.5%
Benefit cost:				
Discount rate	6.5%	6.0%	7.0%	6.5%
Expected long-term rate of return on plan assets	6.5%	-	6.5%	-
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%
Rate of inflation	2.5%	2.5%	2.5%	2.5%

For measurement purposes, a 9.0% (2005 – 9.0%) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006. The rate of increase was assumed to decrease gradually to 5.0% in 2014 and remain at that level thereafter.

The plan assets consist of:

	<u>2006</u>	<u>2005</u>
Equity securities	26.1%	23.0%
Debt securities	50.8%	53.6%
Pooled funds	22.4%	22.2%
Cash and short-term investments	<u>.7%</u>	<u>1.2%</u>
	<u>100.0%</u>	<u>100.0%</u>

The table below outlines the funding provided by the University and its employees and the benefits paid under the University's defined benefit plan:

	<u>2006</u>		<u>2005</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefits Plan</u>	<u>Pension Benefit Plan</u>	<u>Other Benefits Plan</u>
Employer contributions	18,164	2,520	13,916	2,203
Employee contributions	10,841	-	10,123	-
Benefits paid	24,947	2,520	23,264	2,203

15. Change in Non-Cash Working Capital

	<u>2006</u>	<u>2005</u>
Decrease (increase) in accounts receivable	\$ 1,121	\$ (3,262)
Decrease in inventories	88	442
Decrease (increase) in prepaid expenses	162	(738)
Increase in accounts payable	689	2,739
Increase (decrease) in unearned income	1,781	(113)
Increase in deferred contributions	<u>53,417</u>	<u>29,322</u>
	<u>\$57,258</u>	<u>\$28,390</u>

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

UNIVERSITY OF WATERLOO
SCHEDULE OF GENERAL OPERATING EXPENSES
for the year ended April 30, 2006
(with comparative figures for the year ended April 30, 2005)
(thousands of dollars)

SCHEDULE 1
Page 1

	Salaries				Employee Benefits	Supplies and Other Expenses	Equipment, Maintenance and Rentals	Travel	Scholarships and Bursaries	Cost Recoveries	Totals		
	Faculty	Teaching Assistants	Technicians	Staff							Total	2006	2005
ACADEMIC													
Applied Health Sciences:													
Dean's Office	\$ 456	41		894	1,391	243	288	229	52	219	(116)	2,306	1,699
Health Studies & Gerontology	1,400	240	23	166	1,829	312	215	32	33		(14)	2,407	1,836
Kinesiology	1,724	328	470	283	2,805	493	184	172	30		(17)	3,667	3,553
Recreation & Leisure Studies	1,263	183	4	144	1,594	274	67	9	41			1,985	1,948
Total - 2006	4,843	792	497	1,487	7,619	1,322	754	442	156	219	(147)	10,365	
Total - 2005	4,325	769	457	1,263	6,814	1,140	493	403	119	144	(77)		9,036
Arts:													
Accountancy, School of	3,521	158		485	4,164	647	900	87	113	131	(9)	6,033	5,264
Anthropology	615	3		23	641	112	28	4	3			788	752
Classical Studies	617	2		16	635	112	21	5	3	1		777	725
Computing Office		52		446	498	89	52	110			(24)	725	594
Dean's Office	645	9		1,145	1,799	303	401	92	129	901	(39)	3,586	3,324
Drama and Speech Communication	863	29	84	117	1,093	184	108	33	6		(5)	1,419	1,207
Economics	2,532	191		119	2,842	465	129	6	6	41		3,489	3,153
English Language & Literature	1,878	352		120	2,350	379	76	15	13	15		2,848	2,574
Fine Arts	824	22	40	146	1,032	190	117	4	25			1,368	1,288
French Studies	994	99	139	53	1,285	213	66	1	10	7		1,582	1,534
Germanic and Slavic Studies	986	115		81	1,182	205	41		15	1		1,444	1,367
History	1,280	160		80	1,520	259	44		9	44		1,876	1,741
Independent Studies	42			32	74	6	25	1	1			107	81
Language Laboratory		36		52	88	12	2	4	1			107	92
Philosophy	1,151	246		81	1,478	214	37	5	4		(1)	1,737	1,854
Political Science	1,456	101		82	1,639	272	37	1	19	31	(2)	1,997	1,720
Psychology	3,396	913	207	768	5,284	861	279	87	91	34	(87)	6,549	6,431
Religious Studies	77	37		18	132	18	8	4		11		173	134
Sociology	1,372	221		77	1,670	282	174	1	8	7	(17)	2,125	2,047
Spanish and Latin American Studies	476	2	25	18	521	86	13		2			622	593
Women's Studies	81			43	124	17	6	1	1			149	113
Total - 2006	22,806	2,748	495	4,002	30,051	4,926	2,564	461	459	1,224	(184)	39,501	
Total - 2005	\$ 21,326	2,561	507	3,841	28,235	4,418	2,263	627	445	709	(109)		36,588

(continued)

UNIVERSITY OF WATERLOO
 SCHEDULE OF GENERAL OPERATING EXPENSES
 for the year ended April 30, 2006
 (with comparative figures for the year ended April 30, 2005)
 (thousands of dollars)

SCHEDULE 1
 Page 2

	Salaries					Employee Benefits	Supplies and Other Expenses	Equipment, Maintenance and Rentals	Travel	Scholarships and Bursaries	Cost Recoveries	Totals	
	Faculty	Teaching Assistants	Technicians	Staff	Total							2006	2005
Engineering:													
Architecture, School of	\$ 1,951	156	31	485	2,623	416	521	40	137		(5)	3,732	3,115
Centre for Society, Technology & Values	71	6		34	111	18	8	6	2			145	125
Chemical	2,689	398	424	295	3,806	642	442	98	52	8	(68)	4,980	4,258
Civil and Environmental	3,031	341	503	321	4,196	721	269	161	57	1	(42)	5,363	4,985
Computer		58	640	44	742	135	84	238	5		(20)	1,184	965
Dean's Office	353	93	38	1,527	2,011	284	938	207	381	2,283	(192)	5,912	5,549
Electrical & Computer	6,999	1,277	1,352	654	10,282	1,721	863	526	188		(109)	13,471	11,483
Machine Shop			394	155	549	101	127	19	1		(98)	699	793
Management Sciences	1,708	202	57	194	2,161	358	411	78	31		(33)	3,006	2,754
Mechanical	4,437	606	709	407	6,159	1,054	744	890	196	47	(31)	9,059	8,067
Systems Design	2,301	287	225	175	2,988	494	118	41	42		(1)	3,682	3,512
Undergraduate Office	132	849		575	1,556	201	153	98	29	1		2,038	1,496
Total - 2006	23,672	4,273	4,373	4,866	37,184	6,145	4,678	2,402	1,121	2,340	(599)	53,271	
Total - 2005	21,731	3,840	4,143	4,106	33,820	5,361	3,928	2,047	893	1,657	(604)		47,102
Environmental Studies:													
Dean's Office	834	177		1,132	2,143	374	558	205	241	199	(29)	3,691	3,376
Environment and Resource Studies	976	146		127	1,249	230	36	5	13		(1)	1,532	1,335
Geography	1,675	286	62	209	2,232	393	84	8	111		(8)	2,820	2,835
School of Planning	1,343	260	78	167	1,848	305	68	30	75		(11)	2,315	2,154
Total - 2006	4,828	869	140	1,635	7,472	1,302	746	248	440	199	(49)	10,358	
Total - 2005	4,487	785	134	1,677	7,083	1,193	820	147	381	136	(60)		9,700
Mathematics:													
Applied Mathematics	2,268	247		129	2,644	468	121	63	55		(1)	3,350	3,164
Combinatorics and Optimization	2,732	247	1	214	3,194	512	107	32	53		(22)	3,876	3,567
Computer Science, School of	7,882	2,609	956	1,387	12,834	2,015	606	586	265	71	(162)	16,215	15,735
Computing Facility	5	49	605	194	853	169	117	211	4		(125)	1,229	1,129
Dean's Office	1,320	1,001		1,469	3,790	567	1,477	127	485	1,623	(4)	8,065	7,510
Graduate Studies	8			58	66	14	6	4	12			102	97
Pure Mathematics	2,360	217		122	2,699	466	84	25	117		(4)	3,387	2,973
Statistics and Actuarial Science	3,687	710	33	238	4,668	796	204	123	82	96	(36)	5,933	5,362
Total - 2006	20,262	5,080	1,595	3,811	30,748	5,007	2,722	1,171	1,073	1,790	(354)	42,157	
Total - 2005	\$ 18,641	5,275	1,426	3,598	28,940	4,413	2,423	1,614	940	1,471	(264)		39,537

(continued)

UNIVERSITY OF WATERLOO
 SCHEDULE OF GENERAL OPERATING EXPENSES
 for the year ended April 30, 2006
 (with comparative figures for the year ended April 30, 2005)
 (thousands of dollars)

SCHEDULE 1
 Page 3

	Salaries					Employee Benefits	Supplies and Other Expenses	Equipment, Maintenance and Rentals	Travel	Scholarships and Bursaries	Cost Recoveries	Totals	
	Faculty	Teaching Assistants	Technicians	Staff	Total							2006	2005
Science:													
Biology	\$ 3,071	614	586	510	4,781	817	557	324	89	1	(128)	6,441	6,655
Chemistry	2,996	732	598	700	5,026	834	1,295	675	72		(630)	7,272	5,938
Dean's Office	199	18	199	757	1,173	202	399	346	172	365	(25)	2,632	1,977
Earth Sciences	1,995	322	109	343	2,769	495	261	69	107		(20)	3,681	3,761
Optometry - Clinic	1,449	11	293	641	2,394	382	1,121	111	24			4,032	3,732
- School	1,753	412	201	624	2,990	486	462	191	186		(67)	4,248	4,068
Physics and Astronomy	2,813	503	58	464	3,838	664	664	505	121	19	(63)	5,748	5,753
School of Pharmacy				137	137	32	279	34	84			566	7
Technical Services			522	1	523	114	79	34	1		(230)	521	491
Total - 2006	14,276	2,612	2,566	4,177	23,631	4,026	5,117	2,289	856	385	(1,163)	35,141	
Total - 2005	13,445	2,790	2,532	3,567	22,334	3,579	4,649	1,878	748	357	(1,163)		32,382
Centre for Business, Entrepreneurship and Technology													
Total - 2006	209			141	350	61	366	5	43	27		852	
Total - 2005	87			223	310	38	230	10	19	23			630
Distance Education													
Total - 2006				1,486	1,486	286	539	11	8	1	(33)	2,298	
Total - 2005				1,492	1,492	307	631	19	6	1	(4)		2,452
English Language Proficiency Program													
Total - 2006	5		247		252	45	8	3			(7)	301	
Total - 2005			278		278	40	12	3					333

(continued)

UNIVERSITY OF WATERLOO
 SCHEDULE OF GENERAL OPERATING EXPENSES
 for the year ended April 30, 2006
 (with comparative figures for the year ended April 30, 2005)
 (thousands of dollars)

SCHEDULE 1
 Page 4

	Salaries					Employee Benefits	Supplies and Other Expenses	Equipment, Maintenance and Rentals	Travel	Scholarships and Bursaries	Cost Recoveries	Total	
	Faculty	Teaching Assistants	Technicians	Staff	Total							2006	2005
Inter-University service teaching - net													
Total - 2006	\$						560					560	
Total - 2005							554						554
Teaching Resources & Continuing Education													
Total - 2006	6	42		271	319	60	364	1	26		(15)	755	
Total - 2005	1	43		265	309	58	367	3	23		(7)		753
Waterloo Centre for the Advancement of Co-op Education													
Total - 2006	11			23	34	3	16	3	26			82	
Total - 2005	10			175	185	24	14	4	11				238
Academic expenses													
Total - 2006	90,918	16,416	9,913	21,899	139,146	23,183	18,434	7,036	4,208	6,185	(2,551)	195,641	
Total - 2005	84,053	16,063	9,477	20,207	129,800	20,571	16,384	6,755	3,585	4,498	(2,288)		179,305
PHYSICAL PLANT													
Fire and liability insurance							1,236					1,236	1,466
Municipal taxes							1,836					1,836	1,733
Plant Operations				14,459	14,459	3,173	3,942	1,002	8		(5,017)	17,567	15,812
Security				1,434	1,434	261	258	46	9		(153)	1,855	1,581
Leased/Rental Properties				4	4		442					446	203
Utilities							11,443				(1,668)	9,775	8,597
Total - 2006				15,897	15,897	3,434	19,157	1,048	17		(6,838)	32,715	
Total - 2005	\$			15,064	15,064	3,180	16,657	1,080	10		(6,599)		29,392

(continued)

UNIVERSITY OF WATERLOO
SCHEDULE OF GENERAL OPERATING EXPENSES
for the year ended April 30, 2006
(with comparative figures for the year ended April 30, 2005)
(thousands of dollars)

	Salaries					Employee Benefits	Supplies and Other Expenses	Equipment, Maintenance and Rentals	Travel	Scholarships and Bursaries	Cost Recoveries	Totals		
	Faculty	Teaching Assistants	Technicians	Staff	Total							2006	2005	
ACADEMIC SUPPORT														
Associate Provost-Academic & Student Affairs	\$ 10	3		269	282	45	60	85	27			499	521	
Associate Provost-Human Resources & Student Services				754	754	124	277	29	50		(1)	1,233	1,187	
Associate Vice-President, Academic	105			120	225	19	140	1	82			467	418	
Associate Vice-President, Learning Resource & Innovation	16	108		271	395	50	101	32	57			635	536	
Athletics & Recreational Services				1,953	1,953	317	614	396	421		(25)	3,676	3,435	
Audio Visual Centre				735	735	155	121	247	4		(65)	1,197	1,244	
Business Operations				521	521	57	29	9	4		(215)	405	384	
Central Stores				1,122	1,122	236	305	180	6		(104)	1,745	1,606	
Communications & Public Affairs				690	690	131	469	19	1			1,310	1,388	
Co-op Education & Career Services		280		5,646	5,926	1,136	595	88	416			8,161	7,835	
Corporate				250	250		3,096	496	61	190		4,093	3,828	
Counselling Services				951	951	184	41	4	18		(2)	1,196	1,082	
Development & Alumni Affairs	15			3,463	3,478	671	1,488	45	174	2	(20)	5,838	5,258	
Finance				1,696	1,696	362	150	1	6		(1)	2,214	2,237	
Graduate Studies	52			933	985	196	158	5	108	7,038	(1)	8,489	8,205	
Health Services	14			1,041	1,055	205	132	18	5		(2)	1,413	1,368	
Human Resources				1,658	1,658	329	103	13	10		(4)	2,109	1,943	
Information Systems & Technology				7,771	7,771	1,446	2,466	2,407	138		(652)	13,576	12,650	
Institutional Analysis & Planning				558	558	110	82	24	21			795	633	
Learning & Teaching through Technology	174			595	769	149	49	4	46			1,017	975	
Library - operations				6,878	6,878	1,407	746	1,628	51			10,710	8,726	
- acquisitions							7,259					7,259	7,088	
Office of Research	30	1		2,084	2,115	433	400	14	60			3,022	2,623	
President's Office				539	539	69	42	1	47			698	641	
Procurement Services				448	448	97	55	4	6			610	586	
Registrar				5,140	5,140	909	715	66	86	10,434	(2)	17,348	13,403	
Retirement/employee future benefits						10,249						10,249	8,051	
Safety				320	320	67	233	5	3			628	528	
Secretariat				607	607	118	254	4	6		(1)	988	971	
Student Life Centre				261	261	27	869	22	1		(46)	1,134	833	
Theatre Centre				157	157	23	20	1	4		(23)	182	286	
VP Academic & Provost	61			758	819	100	1,353	48	131	5		2,456	1,082	
VP Administration & Finance				263	263	47	31		3		(5)	339	366	
VP University Relations				262	262	44	77	34	28			445	338	
Cost Recovery											(4,829)	(4,829)	(4,076)	
Total - 2006	477	392		48,714	49,583	19,512	22,530	5,930	2,081	17,669	(5,998)	111,307		
Total - 2005	328	302	37	45,922	46,589	16,497	20,138	4,557	1,911	14,105	(5,618)		98,179	
Total expenses 2006	91,395	16,808	9,913	86,510	204,626	46,129	60,121	14,014	6,306	23,854	(15,387)	339,663		
Total expenses 2005	\$ 84,381	16,365	9,514	81,193	191,453	40,248	53,179	12,392	5,506	18,603	(14,505)		306,876	

UNIVERSITY OF WATERLOO
SCHEDULE OF ANCILLARY ENTERPRISES INCOME AND EXPENSES
for the year ended April 30, 2006
(with comparative figures for the year ended April 30, 2005)
(thousands of dollars)

SCHEDULE 2

							<u>Totals</u>	
	<u>Retail Services</u>	<u>Food Services</u>	<u>Graphic Services</u>	<u>Residences</u>	<u>Parking</u>	<u>Watcard</u>	<u>2006</u>	<u>2005</u>
Income:								
Sales, services and other income	\$ 15,684	13,937	6,714	26,776	2,393	604	66,108	63,939
Expenses and other deductions:								
Salaries	1,515	5,108	1,803	4,546	472	201	13,645	13,683
Employee benefits	316	1,043	377	918	97	40	2,791	2,677
Cost of goods sold	12,357	5,013	2,647	10,803	1,262	199	20,017	20,128
Supplies and expenses	1,275	1,645	802	10,803	1,262	199	15,986	15,376
Renovations	174	828	2	1,660	74		2,738	2,421
Travel	31	64	9	229		6	339	351
Equipment, maintenance and rentals	103	346	1,050	791	123	141	2,554	3,252
Utilities	72	117	63	3,236	5		3,493	2,980
	<u>15,843</u>	<u>14,164</u>	<u>6,753</u>	<u>22,183</u>	<u>2,033</u>	<u>587</u>	<u>61,563</u>	<u>60,868</u>
EXCESS INCOME OVER EXPENSES	(159)	(227)	(39)	4,593	360	17	4,545	3,071
Interfund transfers	7	5	3	(1,200)	1		(1,184)	(878)
NET INCREASE (DECREASE)	(152)	(222)	(36)	3,393	361	17	3,361	2,193
NET ASSETS BEGINNING OF YEAR	<u>1,024</u>	<u>(2,437)</u>	<u>(2,664)</u>	<u>1,733</u>	<u>21</u>	<u>183</u>	<u>(2,140)</u>	<u>(4,333)</u>
NET ASSETS END OF YEAR	<u>872</u>	<u>(2,659)</u>	<u>(2,700)</u>	<u>5,126</u>	<u>382</u>	<u>200</u>	<u>1,221</u>	<u>(2,140)</u>
NET ASSETS: ACCUMULATED SURPLUS(DEFICIT) FROM OPERATIONS	872	67	(2,242)	5,126	815	200	4,838	1,700
DEFICIT DUE TO MAJOR CAPITAL ASSET ACQUISITIONS/RENOVATIONS		(2,726)	(458)		(433)		(3,617)	(3,840)
NET ASSETS END OF YEAR	\$ <u>872</u>	<u>(2,659)</u>	<u>(2,700)</u>	<u>5,126</u>	<u>382</u>	<u>200</u>	<u>1,221</u>	<u>(2,140)</u>