

FINANCIAL STATEMENTS

APRIL 30, 2020



UNIVERSITY OF
WATERLOO

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FINANCIAL STATEMENTS

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I N D E X

Statement of Management Responsibility	1
Independent Auditor's Report	2
Financial Statements	
Balance Sheet	4
Statement of Operations	5
Statement of Changes in Net Assets	6
Statement of Cash Flows	7
Notes to the Financial Statements	8

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the University of Waterloo (the “University”) 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 Canadian accounting standards for not-for-profit organizations developed by the Chartered Professional Accountants of Canada. Management believes the financial statements present fairly the University’s financial position as at April 30, 2020 and the results of its operations and its cash flows 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 (the “Board”) 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 & Risk Committee (the “Committee”).

The 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 auditor’s report. 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, 2020 have been audited by Ernst & Young LLP. The independent auditor’s report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

Independent auditor's report

To the Board of Governors of
the **University of Waterloo**

Opinion

We have audited the financial statements of the **University of Waterloo** [the University], which comprise the balance sheet as at April 30, 2020, and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the University in accordance with the ethical requirements that are relevant to our audit of financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Waterloo, Canada
July 22, 2020

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants
Licensed Public Accountants

UNIVERSITY OF WATERLOO
BALANCE SHEET
as at April 30, 2020
(with comparative figures as at April 30, 2019)
(thousands of dollars)

STATEMENT 1

	<u>2020</u>	<u>2019</u>
ASSETS		
<u>Current</u>		
Cash and cash equivalents	\$ 291,811	\$ 305,533
Short-term investments at fair value (note 3)	195,241	203,366
Accounts receivable	42,980	40,686
Inventories	2,204	2,154
Prepaid expenses	<u>18,312</u>	<u>15,981</u>
Total current assets	<u>550,548</u>	<u>567,720</u>
Investments at fair value (note 3)	678,199	643,401
Capital assets, net (note 4)	<u>912,243</u>	<u>907,841</u>
	<u><u>2,140,990</u></u>	<u><u>2,118,962</u></u>
LIABILITIES AND NET ASSETS		
<u>Current</u>		
Accounts payable and accrued liabilities (note 5)	66,161	73,960
Unearned revenue	49,479	102,172
Deferred contributions (note 6)	<u>325,303</u>	<u>300,561</u>
Total current liabilities	<u>440,943</u>	<u>476,693</u>
Employee future benefits (note 7)	367,787	243,543
Deferred capital contributions (note 8)	<u>436,150</u>	<u>439,206</u>
Total liabilities	<u>1,244,880</u>	<u>1,159,442</u>
NET ASSETS		
Unrestricted surplus (note 9)	20,103	18,595
Internally restricted (note 10)	473,201	550,152
Endowments (note 11)	<u>402,806</u>	<u>390,773</u>
	<u>896,110</u>	<u>959,520</u>
	<u><u>\$ 2,140,990</u></u>	<u><u>\$ 2,118,962</u></u>

Commitments and contingencies (note 12)

(See accompanying notes to the financial statements)

On behalf of the Board of Governors:

Cindy Forbes
Chair

Feridun Hamdullahpur
President

UNIVERSITY OF WATERLOO
STATEMENT OF OPERATIONS
for the year ended April 30, 2020
(with comparative figures for the year ended April 30, 2019)
(thousands of dollars)

STATEMENT 2

	<u>2020</u>	<u>2019</u>
REVENUE		
Academic fees	\$ 530,430	\$ 515,510
Donations	11,909	10,514
Grants and contracts	420,219	436,885
Sales, services and other revenue	132,612	142,864
Investment income (note 3)	32,994	52,756
Amortization of deferred capital contributions (note 8)	<u>31,281</u>	<u>29,644</u>
	<u>1,159,445</u>	<u>1,188,173</u>
EXPENSES		
Salaries	571,808	549,202
Employee benefits (note 7)	116,019	106,718
Cost of goods sold	16,231	18,275
Supplies and other	121,866	147,562
Travel	24,838	25,348
Minor repairs and renovations	13,521	17,817
Equipment, maintenance and rentals	31,732	35,828
Scholarships and bursaries	135,065	130,311
Municipal taxes and utilities	22,930	22,532
Amortization of capital assets	<u>49,545</u>	<u>49,651</u>
	<u>1,103,555</u>	<u>1,103,244</u>
Excess of revenue over expenses for the year	<u>\$ 55,890</u>	<u>\$ 84,929</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENT OF CHANGES IN NET ASSETS
for the year ended April 30, 2020
(with comparative figures for the year ended April 30, 2019)
(thousands of dollars)

STATEMENT 3

	<u>Unrestricted Surplus</u>	<u>Internally Restricted</u>	<u>Endowments</u>	<u>2020 Total</u>	<u>2019 Total</u>
Net assets, beginning of year	\$ 18,595	\$ 550,152	\$ 390,773	\$ 959,520	\$ 914,124
Excess of revenue over expenses for the year	55,890			55,890	84,929
Change in net assets internally restricted (note 10)	76,951	(76,951)		—	—
Change in unrealized gain on investments held for donor endowments (note 11)			(2,298)	(2,298)	407
Employee future benefit remeasurement costs (note 7)	(125,207)			(125,207)	(45,884)
Internally endowed contributions (note 11)	(6,126)		6,126	—	—
Endowment contributions (note 11)	<u> </u>	<u> </u>	<u>8,205</u>	<u>8,205</u>	<u>5,944</u>
Net assets, end of year	<u>\$ 20,103</u>	<u>\$ 473,201</u>	<u>\$ 402,806</u>	<u>\$ 896,110</u>	<u>\$ 959,520</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENT OF CASH FLOWS
for the year ended April 30, 2020
(with comparative figures for the year ended April 30, 2019)
(thousands of dollars)

STATEMENT 4

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	\$ 55,890	\$ 84,929
Add (deduct) non-cash items:		
Change in unrealized gain on internally endowed investments (note 10)	876	(632)
Change in unrealized gain on unrestricted investments (note 9)	(1,892)	(4,072)
Amortization of capital assets	49,545	49,651
Amortization of deferred capital contributions (note 8)	(31,281)	(29,644)
Employee future benefits expense (note 7)	67,128	58,595
Employee future benefits contributions	(68,091)	(64,610)
Net change in non-cash balances (note 14)	<u>(48,594)</u>	<u>30,236</u>
 Cash provided by operating activities	 <u>23,581</u>	 <u>124,453</u>
FINANCING ACTIVITIES		
Repayment of long-term debt	—	(10,993)
Contributions for capital assets (note 8)	27,948	19,747
Endowment contributions (note 11)	<u>8,205</u>	<u>5,944</u>
 Cash provided by financing activities	 <u>36,153</u>	 <u>14,698</u>
INVESTING ACTIVITIES		
Purchases of capital assets (notes 4 and 14)	(47,494)	(47,296)
Net purchases of investments	<u>(25,962)</u>	<u>(45,281)</u>
 Cash used in investing activities	 <u>(73,456)</u>	 <u>(92,577)</u>
 Net change in cash and cash equivalents during the year	 (13,722)	 46,574
 Cash and cash equivalents, beginning of year	 <u>305,533</u>	 <u>258,959</u>
 Cash and cash equivalents, end of year	 <u>\$ 291,811</u>	 <u>\$ 305,533</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2020
(thousands of dollars)

1. Description

University of Waterloo (the "University") 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 that was established in 1959.

The objectives of the University 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, as such, is exempt from income taxes.

These financial statements reflect the assets, liabilities, net assets, revenue and expenses of all of the operations of the University. Included are the academic, administrative and other operating expenses funded by academic fees, grants and other general revenue; restricted purpose funds including endowment funds; and the ancillary enterprises, including Housing & Residences, Food Services, Parking, Print and Retail Solutions and WatCard.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the following significant accounting policies:

(a) Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and investments in highly liquid investments, with a maturity of approximately three months or less at the date of purchase, that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value, unless they are held for investment rather than liquidity purposes, in which case they are classified as investments. These instruments are carried at cost plus accrued interest.

(b) Investments and investment income

All investments are recorded at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Publicly traded securities are valued based on the latest closing prices, and pooled funds are valued based on reported unit values. Transactions are recorded on a trade date basis, and transaction costs are expensed as incurred. Investment income (loss), which consists of interest, dividends and realized and unrealized gains (losses), is recorded as income (loss) from investments in the statement of operations, except for investment income (loss) deferred or recorded directly in endowment net assets.

(c) Other financial instruments

Other financial instruments, including accounts receivable and accounts payable and accrued liabilities, are initially recorded at their fair value and continue to be carried at this value, which represents cost, net of any provisions for impairment.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventory is the weighted-average purchase cost and net realizable value is the estimated selling price in the ordinary course of business. Items that are written down to net realizable value are adjusted back up to cost if there is a subsequent increase in the net realizable value. There have been no write-downs of inventory or reversals of previous write-downs during the year.

(e) Capital assets

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

Buildings	40 years
Building equipment	20 years
Parking lots/roadways	15 years
Furniture and equipment	3 - 10 years

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not contribute to the University's ability to provide goods and services. Any impairment results in a write-down of the capital asset and an expense in the statement of operations. An impairment loss is not reversed if the fair value of the related capital asset subsequently increases.

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

(f) Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and grants. 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. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Endowment contributions and restricted contributions used to purchase land are recognized as direct increases in net assets in the period in which the contributions are received or when the land is purchased.

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

Sales, services and other revenue are recognized at point of sale or when these services have been provided.

(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 University accounts for these plans using the immediate recognition approach. Under this approach, the University recognizes the accrued benefit obligation, net of the fair value of plan assets, on the balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets through unrestricted surplus. The University has elected to use an actuarial valuation prepared for funding purposes to measure the defined benefit

obligation in respect of its pension plan. The accrued benefit obligation for funded employee future benefits is determined using a roll-forward technique to estimate the accrued obligation using funding assumptions from the most recent actuarial valuation. The accrued obligation for unfunded plans is prepared on a basis consistent with funded plans. Employee future benefit plans' assets are measured at fair value as at the date of the balance sheet.

(h) Accounting estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 knowledge of current events and actions that the University may undertake in the future. Significant areas requiring the use of management estimates relate to the assumptions used in the valuation of pension and other post-employment retirement benefit obligations, and the recording of contingencies. Actual results could differ from those estimates.

(i) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year-end. Revenues and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from these foreign currency transactions are included in operating results, except to the extent that they relate to investments, in which case they are recognized in the same manner as investment income.

(j) Change in accounting policy

During the year, the University prospectively adopted the new accounting standard Section 4433, Tangible capital assets held by not-for-profit organizations of CPA Canada Handbook – Accounting (the "Handbook") as of May 1, 2019, that requires the University to follow the componentization guidelines of Section 3061, Property, plant and equipment of the Handbook, and the guidelines for the impairment of long-lived assets of Section 3063, Impairment of long-lived assets of the Handbook. The guidelines require capital assets to be separated into significant component parts and each component to be amortized in accordance with their useful lives. Partial impairments on tangible capital assets will now need to be considered.

3. Investments

The University is subject to various risks with respect to its investment portfolio. To manage these risks, the University has established a target mix of investment types designed to achieve the optimal return within reasonable risk tolerances.

Total investments at fair value consist of the following components:

	<u>2020</u>	<u>2019</u>
Short-term bonds and guaranteed investment certificates	<u>\$195,241</u>	<u>\$203,366</u>
Long-term investments:		
Bonds		
Corporate	109,644	92,313
Pooled funds	<u>256,530</u>	<u>238,191</u>
	366,174	330,504

Equity investments (including pooled equity funds)		
Canadian	129,731	138,023
US	6,522	6,729
Other international	<u>175,772</u>	<u>168,145</u>
	312,025	312,897
Total long-term investments	<u>678,199</u>	<u>643,401</u>
Total investments	<u>\$873,440</u>	<u>\$846,767</u>

The investment income of \$32,994 recorded in the statement of operations for the year ended April 30, 2020 (2019 - \$52,756) consists of income made available for spending related to investments held for endowments of \$11,601 (2019 - \$32,820) and income of investments other than those held for endowments of \$21,393 (2019 - \$19,936). Investment income is recorded net of fees.

4. Capital Assets

Capital assets consist of the following:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 16,745	\$ —	\$ 16,745	\$ —
Buildings	1,138,273	361,372	1,123,536	336,113
Building equipment	17,642	254	6,068	—
Parking lots/roadways	6,978	4,944	6,543	4,710
Furniture and equipment	<u>254,549</u>	<u>155,374</u>	<u>227,537</u>	<u>131,765</u>
	1,434,187	<u>521,944</u>	1,380,429	<u>\$472,588</u>
Less accumulated amortization	<u>(521,944)</u>		<u>(472,588)</u>	
Net book value	<u>\$ 912,243</u>		<u>\$ 907,841</u>	

Included in the cost of buildings is \$42,307 (2019 - \$48,620) of construction in progress that is currently not being amortized.

5. Government Remittances Payable

Included in accounts payable and accrued liabilities as at April 30, 2020, are government remittances payable of \$16,503 (2019 - \$16,130).

6. Deferred Contributions

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

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$300,561	\$260,809
Contributions received or receivable during the year	240,108	279,772
Contributions transferred for capital purchases	(25,277)	(15,608)
Contributions recognized as revenue during the year	<u>(190,089)</u>	<u>(224,412)</u>
Balance, end of year	<u>\$325,303</u>	<u>\$300,561</u>

7. Employee Future Benefits

The University has a defined benefit pension plan that provides pension benefits to eligible employees. This registered pension plan is based on years of credited service, highest average earnings in 60 consecutive months in the 10 years immediately preceding retirement, and the CPP's yearly maximum pensionable earnings average for the last 5 years preceding retirement. Pension benefits earned as at an employee's date of retirement less the pension benefit earned as at December 31, 2013, will be indexed at 75% of CPI to a maximum of 5%; pension benefits earned prior to December 31, 2013, will be indexed at 100% of CPI to a maximum of 5%.

An actuarial valuation is performed for the registered pension plan annually. The latest actuarial valuation for the registered pension plan was performed as at January 1, 2020. The latest actuarial valuation filed with the pension regulator for the registered pension plan was performed as at January 1, 2018 and was filed in October 2018. 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 University also has a benefit plan that provides other retirement benefits, including extended health care and life insurance and one that provides for long-term disability income benefits after employment, but before retirement.

The pension expense for the year is \$45,373 (2019 - \$38,145) and other benefit plans expense is \$21,755 (2019 - \$20,450). Remeasurements, which are recorded in the statement of changes in net assets, are as follows:

	<u>2020</u>			<u>2019</u>		
	<u>Registered Pension Plan</u>	<u>Other Benefit Plans</u>	<u>Total Benefit Plans</u>	<u>Registered Pension Plan</u>	<u>Other Benefit Plans</u>	<u>Total Benefit Plans</u>
Difference between actual and expected return on plan assets	\$ (89,235)	\$ —	\$(89,235)	\$ 33,363	\$ —	\$ 33,363
Actuarial gains (losses)	(10,585)	11,860	1,275	(89,441)	7,355	(82,086)
Plan Amendments	(57,165)	19,918	(37,247)	—	—	—
Valuation allowance	—	—	—	2,839	—	2,839
Total employee future benefit remeasurement costs	<u>\$(156,985)</u>	<u>\$ 31,778</u>	<u>\$(125,207)</u>	<u>\$(53,239)</u>	<u>\$ 7,355</u>	<u>\$(45,884)</u>

Information about the University's benefit plans is in the following chart:

	<u>2020</u>			<u>2019</u>		
	<u>Registered Pension Plan</u>	<u>Other Benefit Plans</u>	<u>Total Benefit Plans</u>	<u>Registered Pension Plan</u>	<u>Other Benefit Plans</u>	<u>Total Benefit Plans</u>
Fair value of plan assets	\$1,878,568	\$ —	\$1,878,568	\$1,843,418	\$ —	\$1,843,418
Accrued benefit obligation	<u>2,054,055</u>	<u>192,300</u>	<u>2,246,355</u>	<u>1,877,084</u>	<u>209,877</u>	<u>2,086,961</u>
Employee future benefit liability	<u>\$(175,487)</u>	<u>\$(192,300)</u>	<u>\$(367,787)</u>	<u>\$(33,366)</u>	<u>\$(209,877)</u>	<u>\$(243,543)</u>

The accrued benefit obligation for the registered pension plan as at April 30, 2020 includes an actuarial reserve required by Ontario regulation (a Provision for Adverse Deviation (PfAD)) of \$148,500 (2019 - \$128,500).

8. Deferred Capital Contributions

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

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$439,206	\$449,103
Additions for capital purchases	28,225	19,747
Amortization of deferred capital contributions	<u>(31,281)</u>	<u>(29,644)</u>
Balance, end of year	<u>\$436,150</u>	<u>\$439,206</u>

9. Unrestricted Surplus

	<u>2020</u>	<u>2019</u>
Operational surplus	\$23,507	\$ 23,355
Unrealized gain on unrestricted investments	11,207	9,315
Land purchased with restricted funds	726	726
Provision for vacation pay	<u>(15,337)</u>	<u>(14,801)</u>
	<u>\$20,103</u>	<u>\$ 18,595</u>

10. Internally Restricted Net Assets

	<u>2020</u>	<u>2019</u>
Academic and academic support department carryforwards and operational commitments	\$433,715	\$420,637
Employee future benefits (note 7)	(367,787)	(243,543)
Ancillary enterprises	33,625	40,013
Unspent realized income on internally endowed investments	14,307	17,651
Unrealized gain on internally endowed investments	6,879	7,755
Bridge financing for housing and other construction projects	(122,904)	(160,270)
Invested in capital assets	<u>475,366</u>	<u>467,909</u>
	<u>\$473,201</u>	<u>\$550,152</u>

The University appropriates funds at year-end to cover outstanding operational commitments.

11. Endowments

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

The University's overall objective with respect to endowments is to achieve an annual realized investment income that provides for both spending and inflation protection. Each year, the portion of the realized investment income that is made available for spending is allocated to individual endowments at a rate that is established annually. Another portion of the realized investment income is used to provide inflation protection based on the Consumer Price Index. The residual amount of realized investment income, if any, is used to create a reserve to cover spending and inflation protection in years with low investment

returns. The allocation to each endowment is based on the weighted-average principal of the endowment for the fiscal year. Unspent expendable amounts or parts thereof may be carried forward for future expenditures or added to the endowment's principal.

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 (notes 3 and 6). The amount of realized investment income that was reinvested for preservation of capital for the year ended April 30, 2020, was \$5,957 (2019 - \$8,417).

Net assets restricted for endowment consist of the following:

	<u>2020</u>	<u>2019</u>
Donor endowed (original cost)	266,921	\$258,716
Internally endowed (original cost plus inflation protection)	120,668	114,542
Unrealized gain on investments held for donor endowments	<u>15,217</u>	<u>17,515</u>
	<u>\$402,806</u>	<u>\$390,773</u>

12. Commitments and Contingencies

- (a) The University is a member of a self-insurance co-operative, named CURIE, in association with other 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, 2019, CURIE had an accumulated surplus of \$90,185 (2018 - \$79,338), of which the University's pro rata share is approximately 4.1% (2018 - 4.0%) on an ongoing basis. The University does not have access to its pro rata share of the accumulated surplus, and accordingly, no amount is recorded in these financial statements.
- (b) The estimated cost to complete construction projects in progress as at April 30, 2020, which will be funded by operations, donations and government grants, is approximately \$15,175 (2019 - \$25,406).
- (c) The University has entered into a long-term land lease and operating agreement with Ivest Properties Limited and London Property Corp. for the construction and rental of student housing. The University has a commitment to rent units in the townhouse complex with an option to terminate. The University is committed until at least September 1, 2022. Based on the number of units available for rent as at April 30, 2020, the following are the annual lease payments committed:

2021 - \$2,952 2022 - \$3,011 2023 - \$1,010

- (d) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. As at April 30, 2020, the University believes it has valid defences and appropriate insurance coverage in place on certain claims that are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability can be estimated or adjustments to the amount recorded are determined to be required.

13. Financial Instruments

The University is exposed to various financial risks through transactions in financial instruments.

(a) Foreign currency risk

The University is exposed to foreign currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

(b) Credit risk

The University is exposed to credit risk in connection with its accounts receivable and its short-term and fixed income investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. The credit risk related to bonds is considered negligible because the University invests in bonds with investment grade ratings by recognized credit rating services.

(c) Interest rate risk

The University is exposed to interest rate risk with respect to its investments in fixed income securities because the fair value will fluctuate with changes in market interest rates.

(d) Liquidity risk

The University is exposed to liquidity risk to the extent it will encounter difficulty in meeting obligations associated with its financial liabilities.

(e) Other price risk

The University is exposed to other price risk through changes in market prices (other than changes arising from interest rate or foreign currency risks) in connection with its investments in equity securities and equity pooled fund investments.

14. Net Change in Non-cash Balances

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ (2,294)	\$ 1,761
Inventories	(50)	560
Prepaid expenses	(2,331)	(3,064)
Accounts payable and accrued liabilities	(7,799)	(109)
Less capital asset purchases in accounts payable	(6,175)	(9,358)
Unearned revenue	(52,693)	2,832
Deferred cash contributions	<u>22,748</u>	<u>37,614</u>
	<u>\$(48,594)</u>	<u>\$ 30,236</u>

15. COVID-19

In March 2020, the World Health Organization declared the spread of coronavirus ("COVID19") to constitute a global pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus, including travel restrictions in and out of and within Canada, significantly restricting gatherings of people and requirements to stay at home. These restrictions included the closure

of physical premises of all Canadian post-secondary institutions and impacted the operations of the University. The impact of COVID-19 also adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

The extent of such adverse effects on the University's business and financial and operational performance are uncertain and difficult to assess. The financial impacts will depend on future developments, including the duration, spread and severity of the outbreak, physical distancing requirements, the duration and geographic scope of related travel advisories and restrictions, and the extent of disruptions to businesses globally and its related impact on the economy. As at April 30, 2020, the University did not have significant adjustments to reflect the possible future impact of COVID-19. Investments are recorded at fair value which included the impact on financial markets as at year-end and extra emphasis was put on the collectability of receivables and other estimates within the financial statements as at April 30, 2020.

Management has assessed the going concern assumptions and believes there are no issues, given the University has a strong working capital base and access to liquid resources to support operations in the coming year. Given that the outcome and timeframe to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect on future operations at this time.