

**UNIVERSITY OF
WATERLOO**

Financial Statements

April 30, 2010

UNIVERSITY OF WATERLOO

FINANCIAL STATEMENTS

APRIL 30, 2010

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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, 2010 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, 2010 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 Board of Governors of the **University of Waterloo**

We have audited the financial statements of the **University of Waterloo** (the "university") as at and for the year ended April 30, 2010 comprising the following:

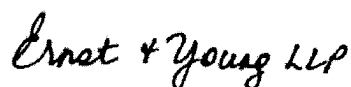
- Statement 1 - Balance Sheet
- Statement 2 - Statement of Operations
- Statement 3 - Statement of Changes in Net Assets
- Statement 4 - Statement of Cash Flows

These financial statements are the responsibility of the management of the university. 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kitchener, Canada,
July 22, 2010.

The signature of Ernst & Young LLP is written in a cursive, handwritten style.

Chartered Accountants
Licensed Public Accountants

UNIVERSITY OF WATERLOO
BALANCE SHEET
as at April 30, 2010
(with comparative figures as at April 30, 2009)
(thousands of dollars)

STATEMENT 1

	<u>2010</u>	<u>2009</u>
ASSETS		
<u>Current</u>		
Cash and cash equivalents	\$ 274,726	\$ 250,370
Short-term investments (note 3)	52,275	75,818
Accounts receivable	25,313	27,564
Inventories	3,037	3,044
Prepaid expenses	<u>3,781</u>	<u>3,398</u>
Total current assets	<u>359,132</u>	<u>360,194</u>
Long-term investments (note 3)	384,695	314,508
Capital assets, net (note 4)	<u>540,653</u>	<u>417,063</u>
	<u><u>1,284,480</u></u>	<u><u>1,091,765</u></u>
LIABILITIES AND NET ASSETS		
<u>Current</u>		
Accounts payable and accrued liabilities	77,793	57,625
Unearned income	44,070	37,923
Current portion of long-term debt (note 5)	<u>1,361</u>	<u>1,280</u>
Total current liabilities	<u>123,224</u>	<u>96,828</u>
Employee future benefits (note 12)	<u>126,546</u>	<u>119,720</u>
Long-term debt (note 5)	<u>29,527</u>	<u>30,888</u>
Deferred contributions (note 6)	275,557	267,171
Deferred capital contributions (note 7)	<u>292,670</u>	<u>235,446</u>
	<u>568,227</u>	<u>502,617</u>
Total liabilities	<u>847,524</u>	<u>750,053</u>
NET ASSETS		
Deficit (note 8)	(130,451)	(127,303)
Internally restricted (note 9)	340,611	272,692
Restricted for endowment (note 10)	<u>226,796</u>	<u>196,323</u>
	<u>436,956</u>	<u>341,712</u>
	<u><u>\$ 1,284,480</u></u>	<u><u>\$ 1,091,765</u></u>

(See accompanying notes to the financial statements)

On behalf of the Board of Governors:

Bob Harding
Chair

Feridun Hamdullahpur
Interim President

UNIVERSITY OF WATERLOO
STATEMENT OF OPERATIONS
for the year ended April 30, 2010
(with comparative figures for the year ended April 30, 2009)
(thousands of dollars)

STATEMENT 2

	<u>2010</u>	<u>2009</u>
INCOME		
Academic fees	\$ 224,561	\$ 197,239
Donations	9,352	9,139
Grants and contracts	347,813	331,595
Sales, services and other income	116,517	111,282
Income from investments (note 3)	18,990	7,249
Amortization of deferred capital contributions (note 7)	<u>17,465</u>	<u>16,381</u>
	<u>734,698</u>	<u>672,885</u>
EXPENSES		
Salaries	331,871	323,576
Employee benefits	64,203	62,611
Cost of goods sold	21,363	21,217
Supplies and other (note 5)	80,615	81,126
Travel	16,451	16,889
Major repairs and renovations	13,213	16,727
Expendable equipment, maintenance and rentals	15,846	18,552
Scholarships and bursaries	81,030	67,501
Municipal taxes and utilities	15,564	15,651
Amortization of capital assets	<u>28,212</u>	<u>26,113</u>
	<u>668,368</u>	<u>649,963</u>
Excess income over expenses for the year	<u>\$ 66,330</u>	<u>\$ 22,922</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENT OF CHANGES IN NET ASSETS
for the year ended April 30, 2010
(with comparative figures for the year ended April 30, 2009)
(thousands of dollars)

STATEMENT 3

	<u>Deficit</u>	<u>Internally Restricted</u>	<u>Restricted for Endowment</u>	<u>2010 Total</u>	<u>2009 Total</u>
Net assets, beginning of year	\$(127,303)	\$272,692	\$196,323	\$341,712	\$338,756
Excess income over expenses for the year	66,330			66,330	22,922
Change in net assets internally restricted (note 9)	(67,919)	67,919			
Change in fair value of interest rate swap (note 3)	1,915			1,915	(2,235)
Change in unrealized loss on investments held for donor endowments (note 10)			16,335	16,335	(28,599)
Land purchased with restricted funds (note 7)					357
Internally endowed amounts (note 10)	(3,474)		3,474		
Endowment contributions (note 10)			10,664	10,664	10,511
Net assets, end of year	<u><u>\$(130,451)</u></u>	<u><u>\$340,611</u></u>	<u><u>\$226,796</u></u>	<u><u>\$436,956</u></u>	<u><u>\$341,712</u></u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENT OF CASH FLOWS
for the year ended April 30, 2010
(with comparative figures for the year ended April 30, 2009)
(thousands of dollars)

STATEMENT 4

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Excess income over expenses for the year	\$ 66,330	\$ 22,922
Add (deduct) non-cash items:		
Change in unrealized loss on internally endowed investments (note 10)	(4,612)	8,324
Change in unrealized gain on unrestricted investments	(1,560)	2,281
Amortization of capital assets	28,212	26,113
Amortization of deferred capital contributions (note 7)	(17,465)	(16,381)
Net change in employee future benefits (note 12)	6,826	8,070
Net change in non-cash balances (note 13)	<u>33,274</u>	<u>56,827</u>
Cash provided by operating activities	<u>111,005</u>	<u>108,156</u>
FINANCING ACTIVITIES		
Repayment of long-term debt (note 5)	(1,280)	(1,204)
Contributions spent on capital assets (note 7)	<u>74,689</u>	<u>47,822</u>
Cash provided by financing activities	<u>73,409</u>	<u>46,618</u>
INVESTING ACTIVITIES		
Purchase of capital assets	(151,802)	(109,095)
Net (purchases) sales of investments (note 3)	(18,920)	74,922
Endowment contributions (note 10)	<u>10,664</u>	<u>10,511</u>
Cash used in investing activities	<u>(160,058)</u>	<u>(23,662)</u>
Net change in cash and cash equivalents during the year	24,356	131,112
Cash and cash equivalents, beginning of year	<u>250,370</u>	<u>119,258</u>
Cash and cash equivalents, end of year	<u>\$ 274,726</u>	<u>\$ 250,370</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2010
(thousands of dollars)

1. Description

The 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 which 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 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. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

(a) Changes in accounting policies

Financial statement concepts

In February 2008 the AcSB amended Canadian Institute of Chartered Accountants 1000 - Financial Statement Concepts to clarify that assets not meeting the definition of an asset or the recognition criteria are not permitted to be recognized on the balance sheet. This change in accounting policy, which was adopted May 1, 2009, does not have an impact on net assets.

(b) 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 purchased with restricted funds are recognized as direct increases in net assets in the period in which they are received/purchased.

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

Sales, services and other income is recognized at point of sale or when service has been provided.

(c) Cash and cash equivalents

Investments included in cash and cash equivalents consist of deposit receipts (\$242; 2009 - \$2,370) and the remainder represents cash. These instruments are carried at cost plus accrued interest, which approximates fair value.

(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) Investments and investment income (loss)

All investments have been classified as held for trading and are recorded at fair value. Publicly traded securities are valued based on the latest bid prices and pooled funds are valued based on reported unit values. Short-term investments are valued at cost plus accrued interest, which approximates fair value. 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 and 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.

(f) 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 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

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.

(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. This method involves the use of the market interest rate at the measurement date on high-quality corporate debt instruments as the discount rate and management's best estimates regarding assumptions about retirement age, termination rates, mortality rates and expected health care costs. The expected long-term return on pension benefit plan assets is calculated using market-related asset values. Past service costs associated with plan amendments are amortized on a straight-line basis over the average remaining service life of the active employees. The minimum amortization of a net actuarial gain or loss is determined using the corridor method, whereby the amount in excess of 10% of the greater of the fair value of plan assets and the accrued benefit obligation is amortized over the average remaining service life of employees. A valuation allowance is recorded against an accrued benefit asset for any excess over the expected future benefit to the university.

(h) 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 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. Actual results could differ from those estimates.

(i) Derivative financial instruments

The university is subject to interest rate cash flow risk with respect to its floating rate debt. The university has addressed this risk by entering into an interest rate swap agreement that fixes the interest rate over the term of the debt. 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.

The interest rate swap is measured at fair value at the year end date and included on the Balance Sheet. The fair value of derivative financial instruments reflects the daily quoted market amount of those instruments. Investment dealer quotes or quotes from a bank are available for the university's derivative financial instruments. The gain or loss is recorded as a direct change in net assets.

(j) Long-term debt

Long-term debt is initially recorded at fair value and subsequently measured at amortized cost using the effective interest rate method.

(k) Capital management

In managing capital, the university focuses on liquid resources available for operations. The university's objective is to have sufficient liquid resources to continue operating even if adverse financial events were to occur and to provide it with the flexibility to take advantage of opportunities that will advance its mission. The need for sufficient liquid resources is considered in the preparation of its annual operating and capital budgets and in the monitoring of cash flows and actual operating results compared to the budget. The university would enter into long-term debt to assist with the financing of capital assets when other sources are not available. As at April 30, 2010, the university has met its objective of having sufficient liquid resources to meet its current obligations.

(l) Financial instruments

The university has chosen to continue to apply CICA 3861 - Financial Instruments - Disclosure and Presentation in place of CICA 3862 - Financial Instruments - Disclosures and CICA 3863 - Financial Instruments - Presentation.

3. Investments

The university is subject to market risk, foreign currency risk and interest rate price risk 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.

(a) Total investments consist of the following components:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Short-term investments	\$ 52,275	\$ 51,668	\$ 75,818	\$ 75,281
Long-term investments:				
Deposits	19,866	19,631	35,888	35,645
Bonds				
Federal	3,531	3,514	5,823	5,661
Provincial	51,674	51,278	33,583	33,253
Corporate	53,456	52,871	37,311	36,501
Pooled	118,176	115,940	104,939	104,503
	<u>226,837</u>	<u>223,603</u>	<u>181,656</u>	<u>179,918</u>
Equity investments				
Canadian	75,000	73,605	50,853	63,914
US	27,218	34,163	20,323	33,230
Other international	39,730	60,840	31,659	56,602
	<u>141,948</u>	<u>168,608</u>	<u>102,835</u>	<u>153,746</u>
Interest rate swap	<u>(3,956)</u>	<u>-</u>	<u>(5,871)</u>	<u>-</u>
Total long-term investments	384,695	411,842	314,508	369,309
Total investments	<u>\$436,970</u>	<u>\$463,510</u>	<u>\$390,326</u>	<u>\$444,590</u>

All corporate bonds are rated AA or better (2009 - AA or better) by recognized rating services.

The university has entered into an interest rate swap contract to manage the cash flow risk associated with a long-term debt obligation (note 5). The contract has the effect of converting the floating rate of interest to a fixed rate of 6.045% (2009 - 6.045%) on \$22,760 (2009 - \$23,474) of debt obligation that is exchanged with 60-90 day investment vehicles. The notional amount of the derivative financial instrument does not represent amounts exchanged between parties and is not a measure of the university's exposure resulting from the use of a financial instrument contract. The amounts exchanged are based on the applicable rates applied to the notional amount.

The university is exposed to credit-related losses in the event of non-performance by counterparties to the interest rate swap, but it does not expect any counterparties to fail to meet their obligations. The university limits its credit risk by only dealing with Canadian chartered banks that are rated AA or better.

(b) Investment income recorded in the Statement of Operations is calculated as follows:

	<u>2010</u>	<u>2009</u>
Income earned from unrestricted and internally endowed resources	\$ 7,722	\$ 13,064
Change in unrealized losses from unrestricted and internally endowed resources	6,171	(10,605)
Restricted investment income (note 6)	5,097	4,790
Total investment income recognized in the year	<u>\$18,990</u>	<u>\$ 7,249</u>

4. Capital Assets

Capital assets consist of the following:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 7,775	\$ -	\$ 7,644	\$ -
Buildings (note 5)	610,739	168,769	484,940	159,857
Parking lots/roadways	4,159	2,397	3,161	2,239
Furniture and equipment	203,590	124,764	181,862	108,289
Library acquisitions	41,619	34,204	39,059	31,635
Collections	<u>2,905</u>	<u>-</u>	<u>2,417</u>	<u>-</u>
	870,787	\$330,134	719,083	\$302,020
Less accumulated amortization	<u>(330,134)</u>		<u>(302,020)</u>	
Net book value	<u>\$540,653</u>		<u>\$417,063</u>	

Included in the cost of buildings is \$210,012 (2009 - \$167,856) of construction in progress that is currently not being amortized. Included in the cost of parking lots/roadways is \$998 (2009 - \$Nil) of construction in progress that is currently not being amortized.

5. Long-Term Debt

(a) Long-term debt obligations are summarized as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Ontario Housing Corporation:</u>				
Lease agreements payable with interest rates ranging from 6.875% to 7.125% and maturities between December 1, 2020 and June 1, 2021	\$ 6,128	\$ 7,259	\$ 6,476	\$ 8,028
<u>Canada Mortgage and Housing Corporation:</u>				
Mortgages payable with interest rates ranging from 5.375% to 6.25% and maturities between July 1, 2016 and February 1, 2019	2,000	2,159	2,218	2,453

Canadian Imperial Bank of Commerce:

Term instalment loan, non-revolving and committed to October 1, 2011 with a floating interest rate which is fixed at 6.045% through an interest rate swap with a term expiring on October 1, 2012 (note 3)

	<u>22,760</u>	<u>23,923</u>	<u>23,474</u>	<u>25,643</u>
	30,888	<u>\$ 33,341</u>	32,168	<u>\$ 36,124</u>
Less current portion	<u>(1,361)</u>		<u>(1,280)</u>	
Long-term debt	<u>\$ 29,527</u>		<u>\$ 30,888</u>	

Future scheduled annual debt principal repayments are as follows:

2011	\$ 1,361
2012	1,447
2013	1,538
2014	1,635
2015	1,739
2016 and beyond	<u>23,168</u>
	<u>\$30,888</u>

The total interest expense on long-term debt recognized in "Supplies and other" and the amount paid for the year ended April 30, 2010 was \$1,991 and \$1,964 respectively (2009 - \$1,965 and \$2,040).

Various residence buildings included in capital assets are pledged as collateral for debt (note 4).

(b) Fair value

The fair values of debt instruments are estimated using a discounted cash flow calculation that uses approximate market interest rates at April 30, 2010 for debt instruments with similar characteristics.

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 are as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$267,171	\$226,931
Contributions received during the year	211,464	233,280
Contributions recognized as income during the year	(128,783)	(143,156)
Investment income made available for spending (note 10)	5,491	2,728
Investment income spent during the year (note 3)	(5,097)	(4,790)
Contributions spent on capital assets during the year (note 7)	<u>(74,689)</u>	<u>(47,822)</u>
Balance, end of year	<u>\$275,557</u>	<u>\$267,171</u>

7. 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 income in the Statement of Operations. Changes in the deferred capital contributions are as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$235,446	\$204,362
Amortization of deferred capital contributions	(17,465)	(16,381)
Contributions spent on capital assets during the year (note 6)	74,689	47,822
Land purchased with restricted funds	<u>-</u>	<u>(357)</u>
Balance, end of year	<u>\$292,670</u>	<u>\$235,446</u>

8. Deficit

	<u>2010</u>	<u>2009</u>
Operational surplus	\$ 6,355	\$ 5,606
Unrealized gain on unrestricted investments	2,447	887
Fair value of interest rate swap (note 3)	(3,956)	(5,871)
Land purchased with restricted funds	707	707
Provision for vacation pay	(9,458)	(8,912)
Employee future benefits (note 12)	<u>(126,546)</u>	<u>(119,720)</u>
	<u>\$(130,451)</u>	<u>\$(127,303)</u>

9. Net Assets Internally Restricted

	<u>2010</u>	<u>2009</u>
Academic and academic support department carryforwards and operational commitments	\$157,766	\$144,088
Ancillary enterprises	10,722	5,921
Unspent realized income on internally endowed investments	79	202
Unrealized loss on internally endowed investments (note 10)	(5,470)	(10,082)
Bridge financing for housing and other construction projects	(47,174)	(24,740)
Net assets invested in capital assets	<u>224,688</u>	<u>157,303</u>
	<u>\$340,611</u>	<u>\$272,692</u>

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

10. Net Assets Restricted for Endowment

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 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 by limiting the amount made available for spending and reinvesting any income not made available for spending in a particular year.

Net assets restricted for endowment consist of the following:

	<u>2010</u>	<u>2009</u>
Donor endowed (cost)	\$190,971	\$180,307
Internally endowed (cost)	54,864	51,390
Unrealized loss on investments held for donor endowments	<u>(19,039)</u>	<u>(35,374)</u>
	<u>\$226,796</u>	<u>\$196,323</u>

In 2010, the decrease in the unrealized loss on investments held for donor endowments of \$16,335 increased net assets restricted for endowment. Of the \$5,491 of realized income, \$5,097 was spent and recognized as investment income and \$394 was unspent and deferred. The change in the unrealized loss on internally endowed investments of \$4,612 was recognized as investment income and increased internally restricted net assets. Realized income of \$1,652 was recognized as investment income.

In 2009, the increase in the unrealized loss on investments held for donor endowments of \$28,599 decreased net assets restricted for endowment. Realized income of \$2,728 and \$2,062 of prior years' deferred income were spent and recognized as investment income. The change in the unrealized loss on internally endowed investments of \$8,324 reduced investment income and internally restricted net assets. Realized income of \$710 was recognized as investment income.

11. 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, 2009, CURIE had a surplus of \$32,032 (2008 - \$17,748), of which the university's pro rata share is approximately 3.7% (2008 - 3.7%) on an ongoing basis.

(b) Contractual obligations

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, 2012. Based on the number of units available for rent as at April 30, the following are the annual lease payments committed:

2011 - \$ 2,369 2012 - \$ 2,422 2013 - \$813

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

12. 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 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%.

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 latest actuarial valuation for the registered pension plan was performed as at January 1, 2009. The next required actuarial valuation for the registered pension plan is January 1, 2012. The university performs 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 \$22,456 (2009 - \$22,248) and other benefit plan expenses of \$10,118 (2009 - \$11,077).

Information about the university's benefit plans as at April 30 is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Fair value of plan assets	\$ 900,183	\$ -	\$790,164	\$ -
Accrued benefit obligation	<u>1,036,208</u>	<u>132,477</u>	<u>790,067</u>	<u>99,942</u>
Plan (deficit) surplus	(136,025)	(132,477)	97	(99,942)
Valuation allowance	-	-	(97)	-
Unamortized past service cost	-	(5,423)	-	(5,875)
Unamortized net actuarial (gain) loss	<u>136,018</u>	<u>11,354</u>	<u>-</u>	<u>(13,903)</u>
Accrued liability	<u>\$ (7)</u>	<u>\$(126,546)</u>	<u>\$ -</u>	<u>\$(119,720)</u>

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

	<u>2010</u>		<u>2009</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Accrued benefit obligation:				
Discount rate	5.8%	4.75-6.00%	7.75%	6.00-7.75%
Rate of compensation increase	4.1%	4.1%	4.25%	4.25%
Rate of inflation	2.1%	2.1%	2.25%	2.25%

	<u>2010</u>		<u>2009</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Benefit cost:				
Discount rate	7.75%	7.75%	6.0%	6.0%
Expected long-term rate of return on fair value of plan assets	6.65%	-	6.0%	-
Rate of compensation increase	4.25%	4.25%	4.5%	4.5%
Rate of inflation	2.25%	2.25%	2.5%	2.5%

For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate of increase was assumed to decrease gradually to 5.0% in 2016 and remain at that level thereafter.

The pension plan assets consist of:

	<u>2010</u>	<u>2009</u>
Equity securities	43.5%	38.5%
Debt securities	55.4%	60.4%
Cash and short-term investments	<u>1.1%</u>	<u>1.1%</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 benefit plans:

	<u>2010</u>		<u>2009</u>	
	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>	<u>Pension Benefit Plan</u>	<u>Other Benefit Plans</u>
Employer contributions	\$22,497	\$3,381	\$22,248	\$3,007
Employee contributions	18,758	-	15,802	-
Benefits paid	33,318	3,381	30,718	3,007

13. Net Change in Non-Cash Balances

	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ 2,251	\$ 2,822
Inventories	7	(387)
Prepaid expenses	(383)	(41)
Accounts payable and accrued liabilities	20,168	(338)
Unearned income	6,147	9,497
Deferred cash contributions	<u>5,084</u>	<u>45,274</u>
	<u>\$ 33,274</u>	<u>\$ 56,827</u>

14. First Generation Pilot Project Initiatives

For the period from May 1, 2008 to April 30, 2010, the university's financial statements include expenditures totaling \$589 incurred for the purpose of carrying out the First Generation Pilot Project Initiatives. The goal of this project is to increase the awareness of the benefits of post-secondary education of First Generation Students and to increase their participation, retention and graduation rates.