

Financial Statement Highlights

April 30, 2012

The University completed the year with revenues of \$1,017.4 million, expenses of \$975.7 million and an excess of revenues over expenses of \$41.7 million. The University's net assets increased from \$591.1 million to \$644.5 million, a \$53.4 million increase over the prior year.

Combined Investment returns (Statement 2) were \$24.1 million in fiscal 2012, compared to \$49.6 million in fiscal 2011. The decrease was mainly due to the decline in investment returns. In fiscal 2012 Western's Operating and Endowment portfolio returned approximately 0.3% (10.9% in 2011) and Foundation Western investments returned approximately -0.15% (10.6% in 2011). Money market investments, although positive, were nominal.

On a cash basis, research revenues were \$157.3 million, an increase of 4.5 million during the year. The University of Western Ontario ranks as one of the top fifteen research-intensive universities in Canada.

Capital additions for the University totaled \$112.1 million. This amount includes purchases of equipment, furnishings, library books, donations of works of art and spending on new construction and major renovations. The construction projects completed and underway support the University's long-range space plan. These projects include new construction that will create the additional space necessary to accommodate undergraduate and graduate enrolment expansion and the associated additional faculty and staff. They also include major building renovations projects that reflect the need to maintain and modernize Western's buildings. New construction includes the New Ivey Building, a new Undergraduate Residence, The Wind Engineering, Energy and Environment Facility (WindEEE) and a new Medical Education Building. Maintenance, Modernization and Infrastructure (MMI) projects consist of major renovations in the Stevenson and Lawson Halls and the Physics and Astronomy Building. These large projects will address major deferred maintenance issues and renew facilities to modern day standards. Funding sources for capital projects includes donations, research infrastructure grants, provincial and federal government grants, operating funds, and debt.

Donations recognized by the University totaled \$57.9 million. \$38.6 million in expendable donations were reported as revenue and \$19.3 million was added directly to endowments. Total pledges outstanding at April 30, 2012 were \$82.2 million.

Looking Forward

The Provinces *Reaching Higher* and *Putting Students First* Programs – which provided substantial incremental resources – have come to an end. Since the Province is facing significant financial pressures, similar levels of government grant funding are unlikely. Additionally, the 2012 Ontario Budget makes note of undefined policy levers which are to generate \$40 million in savings in 2013-14, and an additional \$81 million in 2014-15 in Postsecondary Education. No further detail has been provided. On the tuition front, the Government has extended the current tuition framework only to 2012-13 – and the future of tuition revenues remains uncertain.

In 2012-13, we expect our revenue sources will be based on the following:

- A first year intake of 4,800 students, while maintaining entrance standards
- Increasing the number of undergraduate international students
- Maintaining the proportion of graduate enrolments (as a percent of total enrolment)

With revenue uncertainty particularly beyond 2012-13, ongoing expense containment measures including energy conservation measures, productivity improvements and leveraging technology to reduce transaction costs will continue to be required. With the increased emphasis on accountability and transparency, Western will continue to manage its resources in a conservative and fiscally responsible manner.

THE UNIVERSITY OF WESTERN ONTARIO
COMBINED FINANCIAL STATEMENTS
APRIL 30, 2012

The UNIVERSITY of WESTERN ONTARIO

Responsibility for Financial Reporting

The accompanying combined financial statements of The University of Western Ontario are the responsibility of the University administration and have been approved by the Board of Governors.

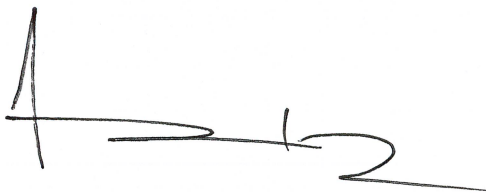
The financial statements have been prepared by the University administration in accordance with Canadian generally accepted accounting principles. Financial statements necessarily include amounts based on informed judgments and estimates, with appropriate consideration to materiality. The administration has determined such amounts on a reasonable basis to ensure that the combined financial statements present fairly the financial position of the University.

The University maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the University's assets are appropriately accounted for and adequately safeguarded.

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

The Audit committee is appointed by the Board. This Committee consists of eight members, none of whom are involved in the daily operations of the University. This Committee meets periodically with the administration, the internal auditor and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual combined financial statements and the external auditors' report. The Committee reports its findings to the Board of Governors for consideration when approving the combined financial statements. The Committee also appoints annually the external auditors.

The combined financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Board of Governors. KPMG has full and free access to the Audit Committee.



Dr. Amit Chakma
President & Vice-Chancellor



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Vice-President - Resources & Operations



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INDEPENDENT AUDITORS' REPORT

To the Board of Governors of The University of Western Ontario

We have audited the accompanying combined financial statements of The University of Western Ontario, which comprise the combined statement of financial position as at April 30, 2012, the combined statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of The University of Western Ontario as at April 30, 2012, and its combined results of operations and its combined cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

September 26, 2012

London, Canada

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Financial Position

Statement 1

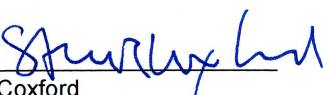
As at April 30, 2012, with comparative amounts for 2011
(thousands of dollars)

	2012	2011
	\$	\$
Assets		
Current		
Cash	17,851	9,423
Accounts receivable	66,208	75,731
Inventories	4,558	4,279
Prepaid expenses	16,236	10,919
Short-term investments [note 5]	177,344	189,558
	<u>282,197</u>	<u>289,910</u>
Long-term accounts receivable	2,373	2,192
Investments [note 5]	694,573	642,026
Capital assets [note 6]	956,103	904,798
	<u>1,935,246</u>	<u>1,838,926</u>
Liabilities and deferred contributions		
Current		
Bank indebtedness [note 7]	1,784	1,465
Accounts payable and accrued liabilities	71,359	60,443
Current portion long-term debt [note 10]	1,342	1,510
Deferred fees and income	67,832	66,179
	<u>142,317</u>	<u>129,597</u>
Long-term accounts payable	3,077	5,932
Employee future benefits [note 8]	307,359	287,425
Debt [note 10]	213,193	214,524
Deferred contributions [note 11]	155,049	158,912
Deferred capital contributions [note 12]	469,791	451,429
	<u>1,290,786</u>	<u>1,247,819</u>
Net assets [Statement 3]	<u>644,460</u>	<u>591,107</u>
	<u>1,935,246</u>	<u>1,838,926</u>

See accompanying notes to the combined financial statements.

Commitments and contingencies [note 20].

Approved on behalf of the Board of Governors:


S. Coxford
Chair, Board of Governors


J. Knowles
Chair, Audit Committee

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Operations

Statement 2

For the year ended April 30, 2012, with comparative amounts for 2011
(thousands of dollars)

	<u>2012</u>	<u>2011</u>
	\$	\$
Revenues		
Government grants for general operations	237,840	234,894
Restricted government grants and other grants and contracts	236,931	224,644
Student fees	287,593	266,568
Sales and services	156,374	153,660
Investment returns [note 5(b)]	24,116	49,581
Donations	38,603	29,449
Recoverable salaries and benefits	17,625	18,862
Other revenues	18,360	17,337
	<u>1,017,442</u>	<u>994,995</u>
Expenses		
Salaries and benefits	594,652	573,332
Operating costs	151,738	145,105
Amortization of capital assets	67,452	66,066
Scholarships, fellowships and bursaries	69,522	68,820
Cost of sales and services	38,344	38,460
Utilities	22,745	20,822
Repairs and maintenance	17,316	25,988
Taxes	2,994	2,821
Interest	10,969	10,790
	<u>975,732</u>	<u>952,204</u>
Excess of revenues over expenses	<u>41,710</u>	<u>42,791</u>

See accompanying notes to the combined financial statements.

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Changes in Net Assets

Statement 3

For the year ended April 30, 2012, with comparative amounts for 2011
(thousands of dollars)

	2012			2011	
	Unrestricted [note 13] \$	Internally Restricted [note 14] \$	Endowments [note 15] \$	Total \$	Total \$
Net assets, beginning of year	(266,663)	495,363	362,407	591,107	507,988
Excess of revenues over expenses	41,710	-	-	41,710	42,791
Change in internally restricted net assets	(44,068)	50,755	-	6,687	417
Transfer to internally endowed	(196)	-	196	-	-
Allocation of internally endowed returns	671	-	(671)	-	-
Investment returns allocated to external endowments [note 5(b)]	-	-	1,056	1,056	33,328
Allocation for spending from accumulated investment returns [note 5(b)]	-	-	(15,362)	(15,362)	(13,580)
Endowment contributions	(4,844)	-	24,106	19,262	20,163
Net assets, end of year	<u>(273,390)</u>	<u>546,118</u>	<u>371,732</u>	<u>644,460</u>	<u>591,107</u>

See accompanying notes to the combined financial statements.

THE UNIVERSITY OF WESTERN ONTARIO

Combined Statement of Cash Flows

Statement 4

For the year ended April 30, 2012, with comparative amounts for 2011
(thousands of dollars)

	2012	2011
	\$	\$
Operating activities		
Excess of revenues over expenses	41,710	42,791
Add/(deduct) non-cash items		
Amortization of capital assets	67,452	66,066
Amortization of deferred capital contributions	(30,742)	(29,962)
Change in unrealized investment (gains)	11,897	(42,084)
Employee future benefits	19,933	23,339
Net change in non-cash working capital [note 19]	<u>13,461</u>	<u>283</u>
Cash provided by operating activities	<u>123,711</u>	<u>60,433</u>
Investing activities		
Net change in investments	(52,230)	(52,145)
Purchase of capital assets	<u>(112,070)</u>	<u>(111,749)</u>
Cash used in investing activities	<u>(164,300)</u>	<u>(163,894)</u>
Financing activities		
Receipt of deferred capital contributions	49,104	67,322
Net change in deferred contributions	(3,863)	5,081
Investment returns allocated to external endowments [note 5(b)]	1,056	33,328
Allocation for spending from accumulated investment returns [note 5(b)]	(15,362)	(13,580)
Repayment of debt	(1,499)	(2,377)
Endowment contributions	<u>19,262</u>	<u>20,163</u>
Cash provided by financing activities	<u>48,698</u>	<u>109,937</u>
Net increase in cash	8,109	6,476
Cash position (bank indebtedness), beginning of year	<u>7,958</u>	<u>1,482</u>
Cash position, end of year	<u><u>16,067</u></u>	<u><u>7,958</u></u>
Represented by:		
Cash	17,851	9,423
Bank indebtedness	<u>(1,784)</u>	<u>(1,465)</u>
	<u><u>16,067</u></u>	<u><u>7,958</u></u>

See accompanying notes to the combined financial statements.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

1. DESCRIPTION

The University of Western Ontario ("The University") operates under the authority of The University of Western Ontario Act, 1982. The University is dedicated to the advancement of learning through teaching and research and to the discovery and application of knowledge. The University is a registered charity and, under the provisions of section 149 of the Income Tax Act, is exempt from paying income taxes.

The combined financial statements of The University contain the accounts of The University and organizations that The University controls, including: The Museum of Ontario Archaeology, Richard Ivey School of Business Foundation, Richard Ivey School of Business (Asia) Limited, The University of Western Ontario Research & Development Park, Windermere Manor Ltd., The Siebens - Drake Research Institute, 1675025 Ontario Limited (Boundary Layer Wind Tunnel), Robarts Research Institute, UWO Investment Trust (#1), UWO Investment Trust (#2) and related foundations in which The University has an economic interest, including: Foundation Western and The University of Western Ontario Foundation Inc.

These combined financial statements do not include the accounts of three colleges that are affiliated with, but not controlled by The University (Brescia University College, King's University College at The University of Western Ontario and Huron University College), or the net assets of the Pension Plans of the Academic Staff and Administrative Staff of The University and the Retirement Income Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of the combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the combined financial statements and the reported amounts of revenue and expenses during the period. Actual amounts could differ from those estimates.

A summary of significant accounting policies is as follows:

(a) Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants.

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of the year are accrued. Where a portion of a grant relates to a future year, it is deferred and recognized in the subsequent year.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions, other than endowment contributions, are deferred and recognized as revenue in the year in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred, and when expended, are amortized into revenue, at a rate corresponding with the amortization rate for the related capital assets.

Endowment contributions, having externally imposed restrictions, are recognized as direct increases in endowment net assets.

Gifts of capital assets are recorded at fair market value at the date of receipt and the related contributions are amortized to operations on the same basis as the related capital asset. Contributions of collection

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

items are recorded at fair market value at the date of the receipt and as a direct increase to net assets.

Pledges are recorded as revenue on a cash basis, due to uncertainty of collection, and accordingly, pledges outstanding and not received at the year end are not recorded as an asset.

Student fees are recognized as revenue when courses and seminars are held. Activity fees are included in student fees. Sales and services revenue is recognized at point of sale or when the service has been provided.

(b) Inventories

Inventories are recorded at the lower of cost and net realizable value, determined largely using the weighted average cost method.

(c) Investments and investment returns

Investments are recorded in the accounts at fair value. The value of investments recorded in the combined financial statements is determined as follows:

- i) Short-term investments are valued based on cost plus accrued interest which together approximates fair value.
- ii) Publicly traded bonds and equities are determined based on the latest bid prices.
- iii) Investments in pooled funds are valued at their reported net asset value per unit.

Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment returns, in the combined statement of operations, include interest, dividends, income distributions from pooled funds, realized and unrealized capital gains and losses and realized and unrealized currency gains and losses.

Investment returns (losses) attributed to the endowments are recorded as an addition (reduction) to endowments net assets. All other investment returns along with the amounts allocated for spending from the endowments are recorded as investment returns in the combined statement of operations.

Investment returns on internally restricted endowments are recorded as a transfer from unrestricted to endowments in the combined statement of changes in net assets.

The University protects the capital value of the endowments by limiting the amount of investment returns that are allocated for spending and requiring the reinvestment of investment returns in excess of such amounts allocated for spending. In any particular year, should investment returns be insufficient to fund the amounts made available for spending, amounts are transferred from the accumulated reinvested returns. For individual endowment funds without sufficient accumulated reinvestment returns, encroachment on endowed capital is permitted to support the desired level of spending. This amount is expected to be recovered by future net investment returns.

(d) Capital assets

Purchased capital assets, including works of art, are recorded at cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis over the estimated useful life for buildings, computer equipment and library books, and on a declining balance basis for all other capital assets.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

Amortization rates are generally as follows:

Buildings	40 years
Computer equipment	5 years
Equipment and furnishings	20 %
Software	100%
Library books	5 years
Works of art and collections are not amortized	

Construction in progress is primarily buildings. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

(e) Employee future benefits

i) Non-pension plans:

The University provides medical, dental and life insurance benefits to eligible employees. The University accrues for these obligations, with the cost of these benefits being actuarially determined using the projected benefit method pro-rated on service using best estimates of salary escalation, retirement ages of employees and expected health care costs. Differences arising from plan amendments, changes in assumptions and actuarial gains and losses are recognized in income over the expected average remaining service life of employees.

ii) Pension plans and other retirement income funds:

The University sponsors pension plans for its academic and administrative staff. The benefits provided under the plans are primarily defined contribution. There is no past service liability in respect of either of these plans. Contributions to defined contribution plans are expensed as incurred.

For academic staff that attained the age of 45 on July 1, 1970 (the date the academic staff plan was changed to provide defined contribution benefits) a minimum annual pension income was guaranteed based on a defined benefit formula. For administrative staff members who were hired prior to May 1, 1974 (the date the administrative staff plan was amended to provide defined contribution benefits) a minimum annual pension income was guaranteed based on a defined benefit formula. The costs of these guarantee formulas are actuarially determined. The existing net surplus in these plans is not recorded in the combined financial statements.

In October 2000, The University established the Retirement Income Funds Program to provide periodic income payments to former members of The University's pension plans who choose to enroll. The University's obligations are solely related to the administration of these programs. Former members allocate, at their own discretion, all or a portion of their entitlements under The University's pension plans to a Registered Retirement Income Fund (RRIF), a Life Income Fund (LIF) or a Locked-in Retirement Income Fund (LRIF). The funds are invested and administered in the same manner as The University pension plans.

(f) Foreign currency translation

The University accounts for transactions in foreign currency at the exchange rate in effect at the time of the transactions. At year-end, monetary assets and liabilities denominated in foreign currency are translated at year-end exchange rates. Foreign exchange gains and losses on investments have been included in investment returns.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

(g) Financial instruments

All financial instruments are initially recorded on the combined statement of financial position at fair value. They are subsequently valued at fair value or amortized cost depending on the classification selected for the financial instrument. Financial assets are classified as either "held-for-trading", "held-to-maturity", "available-for-sale" or "loans and receivables" and financial liabilities are classified as either "held-for-trading" or "other liabilities". Financial assets and liabilities classified as held-for-trading are measured at fair value with changes in fair value recorded in the combined statement of operations. Financial assets classified as held-to-maturity or loans and receivables and financial liabilities classified as other liabilities are subsequently measured at amortized cost using the effective interest method. Available-for-sale financial assets that have a quoted price in an active market are measured at fair value with the changes in fair value recorded in deferred contributions if the investment is externally restricted and in the combined statement of changes in net assets if the investment is not externally restricted. Such gains or losses are reclassified to the combined statement of operations when the related financial asset is disposed of or when the decline in value is considered to be other-than-temporary.

The University has classified its financial instruments as follows:

- i) Cash is classified as held-for-trading.
- ii) Accounts receivable are classified as loans and receivables.
- iii) Investments are classified as held-for-trading.
- iv) Bank indebtedness, accounts payable and accrued liabilities and debt are classified as other liabilities.
- v) Derivative financial instruments which have not been designated as hedges for accounting purposes are classified as held-for-trading. The University's objective for holding derivatives is to minimize risk using the most efficient methods to eliminate or reduce the impacts of these exposures. These derivative financial instruments consist of foreign exchange forward contracts and interest rate swap agreements. Derivative financial instruments are carried at fair value and marked-to-market at each reporting date with the unrealized gain/losses recorded in the combined statement of operations with a corresponding amount recorded in the combined statement of financial position. The University's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The University has elected to record transaction costs as part of the amortized cost using the effective interest method related to financial instruments classified as other than held-for-trading.

The University has elected to use trade date accounting for regular-way purchases and sales of financial assets.

The University has elected not to apply CICA 3855 to derivatives embedded in leases, derivatives embedded in insurance contracts, contracts to buy or sell non-financial items including derivatives embedded therein, and derivatives embedded in contracts to buy or sell a non-financial item in accordance with The University's expected purchase, sale or usage requirements, in accordance with CICA 3855 paragraph 07A.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

(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 reported amounts of assets and liabilities, related amounts of revenues and expenses, and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of the useful lives of capital assets for amortization and the amortization of deferred capital contributions, determination of the fair value of financial instruments, valuation of pension and other retirement benefit obligations and provisions for contingencies. Actual results could differ from those estimates.

(i) Contributed services

The University benefits from services provided by volunteers in assisting the institution in carrying out its activities. The fair value of these services is indeterminable and accordingly is not included in the combined financial statements.

(j) Agency obligations

The University acts as an agent which holds resources and makes disbursements on behalf of various unrelated individuals or groups. These individuals/groups include the affiliate colleges as well as other universities. The University has no discretion over such agency transactions. Resources received in connection with such agency transactions are reported as liabilities, not revenue, and subsequent distributions are reported as decreases to these liabilities.

3. FUTURE ACCOUNTING POLICY CHANGES

In December 2010, the Accounting Standards Board of the Canadian Institute for Chartered Accountants ("AcSB") and the Public Sector Accounting Board ("PSAB") released the accounting standards impacting the future financial reporting framework for not-for-profit organizations. These standards are effective for years beginning on or after January 1, 2012.

Under the new accounting standards issued by AcSB, The University is classified as an other not-for-profit organization and will apply the Accounting Standards for Not-for-Profit Organizations contained in Part III of the CICA Handbook – Accounting.

The University is currently in the process of determining the impact of these changes, which will be implemented for the year ending April 30, 2013.

4. 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 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 budget. The University attempts to minimize the use of its line of credit of \$20,000 which can be used in the event that sufficient cash flow is not available to cover operating and capital expenditures. As at April 30, 2012, The University has met its objective of having sufficient liquid resources to meet its current obligations.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

5. INVESTMENTS

(a) Investments consist of the following:

	2012	2011
Government bonds	\$ 158,837	\$ 160,212
Corporate bonds	44,118	48,414
Canadian equities	167,399	162,904
U.S. equities	117,011	106,640
Non-North American equities	107,529	103,669
Global equities	51,778	52,238
Mortgages	8,201	-
Real estate	16,543	-
Alternative investments	23,157	7,949
	<u>694,573</u>	<u>642,026</u>
Short-term investments	<u>177,344</u>	<u>189,558</u>
	<u>\$ 871,917</u>	<u>\$ 831,584</u>

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

	2012	2011
Investment returns	\$ 9,810	\$ 69,329
Investment (returns) allocated to external endowments	(1,056)	(33,328)
Allocation for spending from accumulated investment returns	15,362	13,580
	<u>\$ 24,116</u>	<u>\$ 49,581</u>

(c) Investment returns based on financial instrument classifications are as follows:

	2012	2011
Held-for-trading	<u>\$ 24,116</u>	<u>\$ 49,581</u>

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

6. CAPITAL ASSETS

Capital assets consist of the following:

	2012			2011		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Buildings	\$ 1,024,565	\$ 337,764	\$ 686,801	\$ 935,092	\$ 313,833	\$ 621,259
Equipment, furnishing & computer equipment	457,916	310,540	147,376	432,739	286,031	146,708
Library books	208,559	189,756	18,803	201,233	181,568	19,665
Construction in progress	61,896	-	61,896	82,657	-	82,657
Land	21,051	-	21,051	21,051	-	21,051
Works of Art and collections	20,176	-	20,176	13,458	-	13,458
	<u>\$ 1,794,163</u>	<u>\$ 838,060</u>	<u>\$ 956,103</u>	<u>\$ 1,686,230</u>	<u>\$ 781,432</u>	<u>\$ 904,798</u>

The University maintains a collection of art that is insured for \$12,929. During the year, paintings were donated to The University with a total appraised value of \$333 (2011 - \$417) and collections of \$6,385 (2011 - \$0) were recorded. The collections donated consist of historical documents and artifacts and are not included in the art insured value.

The University's insurer determines replacement values of buildings and contents for insurance purposes using an independent appraisal service. The insured replacement value of buildings is \$2,335,957 (2011 - \$2,119,392); contents is \$1,667,720 (2011 - \$1,612,816) which amount includes library books of \$1,035,574 (2011 - \$1,008,163).

7. BANK INDEBTEDNESS

The University's bank overdraft facility is covered by an unsecured line of credit agreement of \$20,000. The line of credit is due on demand and bears interest at the bank's prime rate.

8. EMPLOYEE FUTURE BENEFITS

The interval between actuarial valuations for the defined benefit pension plans does not exceed three years with the most recent valuations prepared as at April 30, 2011 for the non-pension plans and December 31, 2010 for the pension plans. In the years between valuations, an extrapolation of the actuarial valuation is used to determine the market related value of the plan assets and the projected benefit obligations.

(i) Employee future benefits

The accrued benefit liability relating to the employee future benefits is \$307,359 (2011 - \$287,425). This liability has been recorded in the combined financial statements.

Total expense for these plans is \$19,933 (2011 - \$23,339) including \$939 (2011 - (\$641)) for supplemental and other benefits. Benefits paid during the year amounted to \$7,640 (2011 - \$6,325).

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
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(ii) Pension plans:

Information regarding the academic and administrative staff pension plans is as follows:

	2012	2011
Accrued benefit obligation:		
Academic staff	\$ 4,718	\$ 5,159
Administrative staff	2,105	2,008
	<u>\$ 6,823</u>	<u>\$ 7,167</u>
Fair value of plan assets:		
Academic staff	\$ 4,555	\$ 4,902
Administrative staff	1,856	1,889
	<u>\$ 6,411</u>	<u>\$ 6,791</u>
Funded status – (deficit) surplus	<u>\$ (412)</u>	<u>\$ (376)</u>

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

	2012	2011
Employer contributions	\$ 28,194	\$ 27,299
Employee contributions	15,255	14,357
	<u>\$ 43,449</u>	<u>\$ 41,656</u>

Total expense for these plans is \$70,491 (2011 - \$57,837) which include benefits paid during the year in the amount of \$68,837 (2011 - \$56,598).

(iii) Non-pension and pension plans:

The significant actuarial assumptions adopted in measuring The University's accrued benefit obligations for all defined benefit plans are as follows (weighted-average assumptions as of December 31):

	Non-Pension Plans		Pension Plans	
	2012	2011	2012	2011
Discount rate	4.5%	5.25%	1.79 - 1.85%	2.55 - 2.59%
Expected long-term rate of return on plan assets	-	-	1.79 - 1.85%	2.55 - 2.59%
Medical cost increases:				
Hospital and Other Medical	5.0%	5.0%	-	-
Drug	7.5%	8.0%	-	-
Dental cost	4.5%	4.5%	-	-

Drug cost is projected to decrease .5% each year to a 5% ultimate rate.

9. FINANCIAL INSTRUMENTS

(a) Fair values

Fair value estimates are made as of a specific point in time, using available information about the financial instrument.

The carrying value of cash, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates their fair values based on the short-term maturity of those instruments. The fair value of investments is disclosed in note 5, debt is disclosed in note 10(g) and derivative financial instruments in note 9(b).

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

(b) Derivative financial instruments

The notional and fair values of the financial instruments are as follows:

	2012		2011	
	Notional value	Fair value	Notional value	Fair value
Interest rate swap agreements	\$ 13,223	\$ (224)	\$ 13,476	\$ (596)

The unrealized losses on the derivative financial instruments are reported in accounts payable and accrued liabilities in the combined statement of financial position.

Interest rate swaps:

The interest rate swap contract results in The University fixing a long-term interest rate of 4.80% on certain floating rate debt obligations instead of paying a short-term floating rate of 1.46% (2011 – 1.44%).

The interest rate swap agreement relates to The University of Western Ontario Research & Development Park debt and matures on October 25, 2012. The counterparty to this contract is a major Canadian financial institution. The University does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by the counterparty given their high credit rating.

(c) Risk management

The University, through its financial assets and liabilities is exposed to various risks. The following analysis will provide a measurement of risks as at the statement of financial position date, April 30, 2012.

(i) Credit risk

Credit risk is the risk of financial loss to The University if a counterparty to a financial instrument fails to meet its contractual obligation.

Approximately 44% (2011 - 48%) of The University's investments consists of money market investments and government and corporate bonds. In order to minimize the risk of having an issuer of these debt instruments fail to pay interest or principal as required, The University has established minimum credit rating requirements for such investments.

The University has established policies for extending credit to various businesses, groups and individuals who purchase goods and services from The University, in order to reduce incidents of non payment. Management believes that the credit risk is minimized by dealing with creditworthy counterparties.

The University is also exposed to credit risk through its use of interest rate swaps and foreign exchange contracts. The credit risk associated with foreign exchange contracts arises from the possibility that a counterparty to a foreign exchange contract in which The University has an unrealized gain fails to perform according to the terms of the contract. The credit risk is much less than the notional principal amount, being limited at any time to the change in fair value attributable to the instruments.

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Notes to the Combined Financial Statements

Year Ended April 30, 2012
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(ii) Currency risk

Currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in foreign exchange rates.

The University purchases equipment, books and other supplies and services in foreign currencies and may occasionally mitigate its exposure to foreign currency by entering into forward exchange contracts at the time of ordering.

The University receives research and other revenues in foreign currencies and does not mitigate the potential for a loss in revenues that could result due to a fall in the value of the Canadian dollar between invoicing for such amounts and the time of receipt of funds.

Approximately 37% (2011 - 33%) of The University's investments is exposed to investments outside of Canada. A reduction in the values of these foreign currencies in relation to the Canadian dollar would have an adverse effect on the value of these investments. In order to reduce its foreign currency exposure risk, The University does use currency hedging techniques employed by the investment managers. It is appropriate to have some exposure to investments within currencies that are non-Canadian in order to provide a hedge against a major fall in the value of the Canadian dollar. Approximately 19% (2011 - 19%) of The University's investments are exposed to non-Canadian currency fluctuations.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The University is subject to interest rate cash flow risk with respect to its floating rate debt. The University mitigates this risk by entering into a interest rate swap agreement for its floating rate debt that fix the interest rate over the term of the debt.

All other debt of The University, being unsecured debentures, mortgages and capital lease obligations, have fixed interest rates and are therefore not exposed to cash flow interest rate risks.

The University's short-term investments are subject to interest rate fluctuations as maturing investments are reinvested at new rates of interest. The market value of investments held in Government and Corporate bonds will fluctuate due to changes in market interest rates.

(iv) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The University's investments in short-term investments, bonds, equities and hedge funds are subject to market risk. Management mitigates this risk through diversification of its investment portfolio.

(v) Liquidity risk

Liquidity risk is the risk that The University will encounter difficulty in raising funds to meet its obligations as they fall due.

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Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

Additionally, the majority of The University's investments are listed on public stock exchanges and are therefore considered to be liquid, except redemptions from the hedge funds and Private Equity investments which may be postponed or withheld by the manager under certain special circumstances.

Management expects that cash flows from operations will be sufficient to meet The University's obligations.

10. DEBT

	Maturity	Interest Rate at April 30, 2012	Annual Payments (Principal and Interest)	2012 Principal Outstanding	2011 Principal Outstanding
(a) Senior Unsecured Debentures [note (d)]	May 24, 2047	4.798%	\$ 9,116 \$	189,129 \$	189,120
(b) The details of the mortgages are as follows:					
Housing					
Canada Mortgage and Housing Corporation:					
Platt's Lane Estates	Aug. 1, 2028	8.00%	\$ 699 \$	7,082 \$	7,243
Glenmore Complex	Dec 1, 2019	6.25%	500	3,112	3,404
Delaware Hall				-	-
Ontario Housing Corporation:					
Glenmore Complex	Dec 1, 2019	6.50%	31	189	206
Total mortgages			\$ 1,230 \$	10,383 \$	10,853
(c) The details of the loans payable, demand notes, bankers' acceptances and capital lease obligations are as follows:					
Related Corporations					
Research & Development Park					
(i) Bankers' Acceptances [note (e)]	July 31, 2012	1.46%		13,223	13,476
Richard Ivey School of Business Foundation					
(i) Bankers' Acceptances [note (f)]	April 30, 2013	prime		1,800	2,300
Robarts Research Institute					
(i) Capital Lease Obligation				-	285
Total loans payable			\$	15,023 \$	16,061
Total debt			\$	214,535 \$	216,034
Less current portion			\$	1,342 \$	1,510
			\$	213,193 \$	214,524

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
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- (d) On May 24, 2007, The University issued Series A Senior Unsecured Debentures in the aggregate principal amount of \$190,000. The debentures bear interest at 4.798% which is payable semi-annually on May 24 and November 24 with the principal amount to be repaid on May 24, 2047. The proceeds of the issue were used to retire certain existing capital debt and to finance new capital projects. The unused portion of the debenture proceeds were invested in a short term fund.
- (e) An interest rate swap agreement has been entered into to fix the effective interest rate for this loan at 4.89% over the remaining term, ending October 31, 2012.
- (f) The bankers' acceptance for the Richard Ivey School of Business Foundation is guaranteed by The University.
- (g) The fair value of long-term debt at April 30, 2012 was \$236,857 (2011 – \$212,231) compared to a carrying amount of \$214,535 (2011 - \$216,034).
- (h) Anticipated requirements to meet the principal portion of the debt repayments over the next five years are as follows:

	Principal
2013	\$ 1,342
2014	1,461
2015	1,513
2016	1,369
2017	1,128
Subsequent years	207,722
	<u>\$ 214,535</u>

11. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants, donations, contributions and endowment investment income. The balance consists of:

	2012	2011
Balance, beginning of year	\$ 158,912	\$ 153,831
Grants, contributions, donations and endowment income	244,620	264,847
Recognized to revenue	(248,483)	(259,766)
Balance, end of year	<u>\$ 155,049</u>	<u>\$ 158,912</u>

	2012	2011
Unspent research grants	\$ 80,686	\$ 76,536
Scholarships	10,679	10,123
Other restricted funds	63,684	72,253
Balance, end of year	<u>\$ 155,049</u>	<u>\$ 158,912</u>

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

12. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. Unspent deferred capital contributions are included in deferred contributions to be spent until such time as capital expenditures are incurred. The changes in the deferred capital contributions balance are as follows:

	2012	2011
Balance, beginning of year	\$ 451,429	\$ 414,069
Less amortization of deferred capital contributions	(30,742)	(29,962)
Add contributions received during the year	49,104	67,322
Balance, end of year	\$ 469,791	\$ 451,429

Represented by:

	2012	2011
Amounts used for the purchase of capital assets	\$ 462,905	\$ 444,823
Amounts to be spent on capital assets	6,886	6,606
	\$ 469,791	\$ 451,429

13. UNRESTRICTED NET ASSETS

Details of the unrestricted net assets are as follows:

	2012	2011
Operating fund surplus	\$ 43,947	\$ 33,014
Provision for vacation pay	(8,471)	(8,058)
Operating deficit - related organizations	(17,801)	(19,509)
Provision for employee future benefits	(291,065)	(272,110)
Balance, end of year	\$ (273,390)	\$ (266,663)

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
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14. INTERNALLY RESTRICTED NET ASSETS

Details of the internally restricted net assets are as follows:

	2012	2011
Investment in capital assets	\$ 277,804	\$ 265,953
Departmental carry forwards	115,713	86,733
Capital reserve	17,371	24,217
Operating surplus – ancillary and support units	14,148	7,190
Faculty and research trust funds	31,807	25,834
Equipment reserves	14,479	13,424
Self-insurance funds	1,357	1,185
Undistributed investment returns	73,439	70,827
Balance, end of year	\$ 546,118	\$ 495,363

- i) Investment in capital assets represents the unamortized value of capital assets funded by The University, net of outstanding debt. It excludes those assets funded through capital contributions.
- ii) Departmental carry forwards represent amounts that vary from budget. The University has in place a flexible budgeting program, which allows operating budget units to defer surpluses and deficits to the subsequent year(s).
- iii) The capital reserve represents funds internally restricted for deferred maintenance, capital emergencies and capital projects either planned or in progress.
- iv) Ancillary and support unit carry forwards represent amounts that these units are permitted to carry forward.
- v) Faculty and research trust funds include donations and other revenue with no external restrictions that departments are permitted to carry forward.
- vi) The equipment reserves represent funds that departments have allocated for the future replacement of assets.
- vii) The reserve for self-insurance represents funds set aside to cover uninsured losses and the deductible portion of insured losses.
- viii) The undistributed investment returns represent funds internally restricted for uses as determined by The University.

15. ENDOWMENTS

Contributions restricted for endowments consist of restricted donations received by The University and contributions internally restricted by The University, in the exercise of its discretion. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by donors or internally restricted by The University. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

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Notes to the Combined Financial Statements

Year Ended April 30, 2012
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Net assets restricted for endowment consist of the following:

	2012	2011
Externally Endowed	\$ 347,796	\$ 342,840
Internally Endowed	23,936	19,567
	<u>\$ 371,732</u>	<u>\$ 362,407</u>

Represented by:

Endowed funds	\$ 361,467	\$ 337,361
Accumulated investment returns	10,265	25,046
	<u>\$ 371,732</u>	<u>\$ 362,407</u>

16. (a) ONTARIO STUDENT OPPORTUNITY TRUST FUND – PHASE I

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund (OSOTF) matching program. These monies are to award student aid as a result of raising an equal amount of endowed donations.

	2012	2011
Schedule of Changes in Endowment Fund Balance		
Fund balance, beginning of year	\$ 35,533	\$ 33,571
Cash donations received	271	20
Expenditure of endowment principal	(15)	-
Preservation of capital	(753)	1,942
Fund balance, end of year	<u>\$ 35,036</u>	<u>\$ 35,533</u>

Schedule of Changes in Expendable Funds Available for Awards

	2012	2011
Fund balance, beginning of year	\$ 2,088	\$ 2,224
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	1,470	1,327
Expendable donations	51	12
Bursaries awarded [691 (2011 – 720)]	(1,522)	(1,475)
Balance, end of year	<u>\$ 2,087</u>	<u>\$ 2,088</u>
Endowment total based on book value	<u>\$ 37,123</u>	<u>\$ 37,621</u>

The fair value of the endowment at April 30, 2012 was \$37,072 (2011 - \$38,300).

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Notes to the Combined Financial Statements

Year Ended April 30, 2012
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16. (b) ONTARIO STUDENT OPPORTUNITY TRUST FUND – PHASE II

	2012 Western	2012 Affiliates	2011 Western	2011 Affiliates
Schedule of Changes in Endowment Fund Balances				
Fund balance, beginning of year	\$ 13,224	\$ 1,371	\$ 12,549	\$ 1,358
Cash donations received	208	40	67	-
Expenditure of endowment principal	(297)	-	-	-
Preservation of capital	(121)	-	608	13
Fund balance, end of year	\$ 13,014	\$ 1,411	\$ 13,224	\$ 1,371
Schedule of Changes in Expendable Funds Available for Awards				
Fund balance, beginning of year	\$ 512	\$ 157	\$ 536	\$ 139
Realized investment income, net of direct investment related expenses and preservation of capital	1,306	27	1,290	71
Expendable contributions received	-	2	3	-
Bursaries awarded [290 (2011 – 261)]	(1,320)	(50)	(1,317)	(53)
Balance, end of year	\$ 498	\$ 136	\$ 512	\$ 157
Endowment total based on book value	\$ 13,512	\$ 1,547	\$ 13,736	\$ 1,528

The fair value of the endowment at April 30, 2012 was \$15,036 (2011 - \$15,260).

The amounts for affiliates noted above are provided for information purposes only and are not included in the combined financial statements.

The University of Western Ontario

Notes to the Combined Financial Statements

Year Ended April 30, 2012
(thousands of dollars)

17. ONTARIO TRUST FOR STUDENT SUPPORT

Externally restricted endowments include grants provided by the Government of Ontario from the Ontario Trust for Student Support (OTSS) matching program. These monies are to award student aid as a result of raising an equal amount of endowed donations. The Government of Ontario announced that the OTSS matching program ended March 31, 2012.

	2012 Western	2012 Affiliates	2011 Western	2011 Affiliates
Schedule of Cash Donations Matched Between April 1, 2011 and April 30, 2012				
Cash donations matched between April 1, 2011 – April 30, 2012	\$ 1,434	\$ 280	\$ 1,885	\$ 371
Unmatched cash donations received between April 1, 2011 – April 30, 2012	1,661	790	1,637	573
Total Cash Donations	\$ 3,095	\$ 1,070	\$ 3,522	\$ 944
Schedule of Changes in Endowment Fund Balances				
Fund balance, beginning of year	\$ 50,521	\$ 7,476	\$ 43,173	\$ 6,505
Eligible cash donations received	1,661	790	1,637	573
Cash donations included in endowment funds but not eligible for matching	-	-	880	-
Matching funds received from MTCU	1,434	280	1,885	371
Unmatched donations and partial returns removed on cancellation of program	(4,933)	-	-	-
Expenditure of endowment principal	(708)	-	-	-
Preservation of capital	(392)	20	2,946	27
Fund balance, end of year	\$ 47,583	\$ 8,566	\$ 50,521	\$ 7,476
Schedule of Changes in Expendable Funds Available for Awards				
Fund balance, beginning of year	\$ 1,319	\$ 271	\$ 1,477	\$ 206
Expendable donations	19	-	77	-
Realized investment income, net of direct investment-related	1,266	197	949	312
Bursaries awarded [512 (2011 – 538)]	(1,272)	(244)	(1,184)	(247)
Fund balance, end of year	\$ 1,332	\$ 224	\$ 1,319	\$ 271
Outstanding donations pledged	\$ -	\$ -	\$ 5,708	\$ 308

The fair value of the endowment at April 30, 2012 was \$57,705 (2011 - \$58,032).

The amounts for affiliates noted above are provided for information purposes only and are not included in the combined financial statements.

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Year Ended April 30, 2012
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18. THE SEYMOUR SCHULICH ENDOWMENT FUND

The Seymour Schulich Endowment Fund has a current market value of \$31,500. The Fund includes \$11,639 received from two Government of Ontario matching programs, the Ontario Student Opportunity Trust Fund and the Ontario Trust for Student Support.

19. STATEMENT OF CASH FLOWS

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

	2012	2011
Accounts receivable	\$ 9,342	\$ (14,507)
Inventories	(279)	957
Prepaid expenses	(5,317)	2,323
Accounts payable and accrued liabilities	8,062	6,419
Deferred fees and income	1,653	5,092
Net change in non-cash working capital	\$ 13,461	\$ 284

20. COMMITMENTS AND CONTINGENCIES

(a) Legal matters

The University is involved from time to time in litigation that arises in the normal course of operations. In respect to these claims The University believes it has valid defences, funded provisions and/or appropriate insurance coverage in place. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable. It is possible the final resolution of some of these matters may require The University to make expenditures in excess of estimated reserves, over an extended period of time and in a range that cannot be reasonably estimated at this time. The University's policy is to recognize the losses on any litigation when the outcome becomes reasonably determinable. In the administration's judgement no material exposure exists on the eventual settlement of any litigation.

(b) Capital commitments

The estimated cost to complete capital projects in progress at April 30, 2012 is approximately \$144,000.

(c) Canadian Universities Reciprocal Insurance Exchange

On January 1, 2008 The University entered a fifth, 5-year membership with the Canadian Universities Reciprocal Insurance Exchange ("CURIE"). All members pay annual deposit premiums which are actuarially determined and may be subject to further assessment in the event members' premiums are insufficient to cover losses and expenses.

For general liability insurance, CURIE continues to pool the risks of its members and to carry \$5,000 of liability coverage per occurrence with \$20,000 and \$5,000 excess coverages. For property insurance, the limit in any one loss shall not exceed \$5,000. All losses are subject to an annual aggregate of \$7,500. Once the per occurrence or aggregate is exhausted the excess policy shall apply. For excess coverages, members of CURIE are insured by various insurance companies to a limit of \$995,000. For errors or

The University of Western Ontario

Notes to the Combined Financial Statements

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omissions insurance CURIE pools the risk of its members and carries \$5,000 of coverage with additional excess coverage's of \$20,000 and \$5,000.

21. PLEDGES

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

	Pledges	
2013 -	\$	23,008
2014 -		14,829
2015 -		12,482
subsequent years -		31,907
	\$	<u>82,226</u>

22. COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to be consistent with the presentation adopted in the current year.