Financial Statements

April 30, 2014

UNIVERSITY OF WATERLOO

UNIVERSITY OF WATERLOO

FINANCIAL STATEMENTS

APRIL 30, 2014

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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 Canadian accounting standards for not-for-profit organizations developed by the Chartered Professional Accountants Canada. Management believes the financial statements present fairly the university's financial position as at April 30, 2014 and the results of its operations and its cash flows for the year then ended.

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

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

The Audit & Risk 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' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance. The Committee also considers, for approval by the Board, the engagement or reappointment of the external auditors.

Financial statements for the year ended April 30, 2014 have been audited by Ernst & Young LLP. The independent auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the **University of Waterloo**, which comprise the balance sheet as at April 30, 2014 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **University of Waterloo** as at April 30, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Kitchener, Canada,
August 8, 2014

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

UNIVERSITY OF WATERLOO

STATEMENT 1

BALANCE SHEET

as at April 30, 2014

(with comparative figures as at April 30, 2013)

(thousands of dollars)

	2014	2013 *(note 3)*
ASSETS		
Current		
Cash	$ 245,681	$ 259,678
Short-term investments (note 4)	115,385	91,646
Accounts receivable	23,480	20,280
Inventories	3,923	3,772
Prepaid expenses	6,869	7,140
Total current assets	395,338	382,516
Long-term investments (note 4)	534,340	510,841
Capital assets, net (note 5)	786,504	725,542
	1,716,182	1,618,899
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities (note 6)	58,574	56,219
Unearned revenue	67,681	64,678
Current portion of long-term debt (note 7)	1,739	1,635
Deferred contributions (note 8)	213,169	224,648
Total current liabilities	341,163	347,180
Employee future benefits (note 9)	328,175	217,902
Long-term debt (note 7)	43,668	24,907
Deferred capital contributions (note 10)	432,043	422,629
Total liabilities	1,145,049	1,012,618
NET ASSETS		
Unrestricted surplus (note 11)	16,527	15,322
Internally restricted (note 12)	243,417	308,200
Endowments (note 13)	311,189	282,759
	571,133	606,281
	$ 1,716,182	$ 1,618,899

Commitments and contingencies (note 14)

(See accompanying notes to the financial statements)

On behalf of the Board of Governors:

Kevin Lynch
Chair

Feridun Hamdullahpur
President

UNIVERSITY OF WATERLOO

STATEMENT 2

STATEMENT OF OPERATIONS

for the year ended April 30, 2014

(with comparative figures for the year ended April 30, 2013)

(thousands of dollars)

	2014	2013 *(note 3)*
REVENUE		
Academic fees	$ 332,416	$ 307,730
Donations	15,632	14,980
Grants and contracts	390,975	389,164
Sales, services and other revenue	116,372	116,539
Income from investments (note 4)	23,319	26,424
Amortization of deferred capital contributions (note 10)	27,101	22,702
	905,815	877,539
EXPENSES		
Salaries	415,083	390,239
Employee benefits	80,946	81,275
Cost of goods sold	18,053	18,469
Supplies and other (note 7)	113,510	107,784
Travel	21,110	21,690
Major repairs and renovations	13,418	23,473
Expendable equipment, maintenance and rentals	20,546	21,215
Scholarships and bursaries	107,915	99,164
Municipal taxes and utilities	22,006	20,165
Impairment of intangibles acquired (note 15)	-	3,887
Amortization of capital assets	42,232	35,772
	854,819	823,133
Excess revenue over expenses for the year	$ 50,996	$ 54,406

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO

STATEMENT 3

STATEMENT OF CHANGES IN NET ASSETS
for the year ended April 30, 2014
(with comparative figures for the year ended April 30, 2013)
(thousands of dollars)

	Unrestricted Surplus	Internally Restricted	Endowments	2014 Total	2013 Total *(note 3)*
Net assets, beginning of year	$15,322	$308,200	$282,759	$606,281	$521,703
Excess revenue over expenses for the year	50,996			50,996	54,406
Change in net assets internally restricted (note 12)	(45,698)	45,698			
Change in unrealized gain on investments held for donor endowments (note 13)			10,193	10,193	8,132
Employee future benefit remeasurement costs (note 9)		(110,481)		(110,481)	14,636
Internally endowed amounts (note 13)	(4,093)		4,093		
Endowment contributions (note 13)			6,960	6,960	7,404
Transferred from deferred contributions			7,184	7,184	
Net assets, end of year	$16,527	$243,417	$311,189	$571,133	$606,281

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO

STATEMENT 4

STATEMENT OF CASH FLOWS

for the year ended April 30, 2014

(with comparative figures for the year ended April 30, 2013)

(thousands of dollars)

	2014	2013
OPERATING ACTIVITIES		
Excess revenue over expenses for the year	$ 50,996	$ 54,406
Add (deduct) non-cash items:		
Change in unrealized gain on internally endowed investments (note 13)	(3,084)	(2,365)
Change in unrealized gain on unrestricted investments	(869)	(2,611)
Amortization of capital assets	42,232	35,772
Amortization of deferred capital contributions (note 10)	(27,101)	(22,702)
Net change in employee future benefits (note 9)	(208)	5,315
Deferred contributions endowed	7,184	-
Net change in non-cash balances (note 17)	(14,140)	(20,579)
Cash provided by operating activities	55,010	47,236
FINANCING ACTIVITIES		
Repayment of long-term debt (note 7)	(1,635)	(1,538)
Proceeds of long-term debt (note 7)	20,500	-
Contributions for capital assets (note 10)	36,515	52,108
Endowment contributions	6,730	7,404
Cash provided by financing activities	62,110	57,974
INVESTING ACTIVITIES		
Purchases of capital assets	(103,194)	(78,190)
Net purchases of investments	(27,923)	(41,246)
Cash used in investing activities	(131,117)	(119,436)
Net change in cash during the year	(13,997)	(14,226)
Cash, beginning of year	259,678	273,904
Cash, end of year	$ 245,681	$ 259,678

(See accompanying notes to the financial statements)

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 of the university. Included are the academic, administrative and other operating expenditures funded by academic fees, grants and other general revenue; restricted purpose funds including endowment funds; and the ancillary enterprises, including Housing & Residences, Food Services, Parking and Retail Services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants (CPA) Canada Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and include the following significant accounting policies:

(a) Investments and investment income

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

(b) Derivative financial instruments

The university uses forward contracts to economically hedge the impacts of foreign currency changes for investments denominated in foreign currencies and interest rate swaps to mitigate the effect of changes in interest rates on variable-rate debt. When hedging investment transactions denominated in foreign currencies, the anticipated transaction is recognized at the amount of consideration paid or received when it occurs. The gain or loss on the forward contract is recorded as an adjustment to the carrying amount of the hedged item.

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 university follows hedge accounting for its interest rate swap which results in the interest expense related to certain long-term debt being 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. Interest rate swaps in qualifying hedging relationships are not recognized until their maturity.

(c) Other financial instruments

Other financial instruments, including accounts receivable and accounts payable are initially recorded at their fair value and are not subsequently revalued, but a provision for impairment is recognized and netted against accounts receivable.

(d) Inventories

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

(e) Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value on the date of contribution. Capital assets are amortized on a straight-line basis over 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 and amortized over the same term on the same basis as the related capital assets.

Works of art are recorded at cost and not amortized.

(f) Revenue recognition

The university follows the deferral method of accounting for contributions. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Endowment contributions and restricted contributions used to purchase land are recognized as direct increases in net assets in the period in which the endowment contributions are received or when the land is purchased.

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

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

(g) Long-term debt

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

(h) Employee future benefits

The university has a defined benefit pension plan for its employees and provides other retirement and post-employment benefits such as extended health care and life insurance coverage. The university recognizes the accrued benefit obligation, net of the fair value of plan assets on the balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. The university has elected to use an actuarial valuation prepared for funding purposes to measure the defined benefit obligation in respect of its pension plan.The accrued benefit obligation for funded employee future benefits is determined using a roll-forward technique to estimate the accrued obligation using funding assumptions from the most recent actuarial valuation prepared at least every three years. The accrued obligation for unfunded plans is prepared on a basis consistent with funded plans. Employee future benefit plans' assets are measured at fair value at the date of the balance sheet.

(i) Accounting estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These amounts are based on management's knowledge of current events and actions that the university may undertake in the future. Significant areas requiring the use of management estimates relate to the assumptions used in the valuation of pension and other post-employment retirement benefit obligations. Actual results could differ from those estimates.

(j) Foreign currency translation

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

3. Early Adoption of Reporting Employee Future Benefits by Not-for-Profit Organizations

Effective May 1, 2013, the university early adopted Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations, of the CPA Canada Handbook-Accounting on a retrospective basis. Section 3463.01 provides that a not-for-profit organization applies Section 3462 except as otherwise provided for in Section 3463.

In accordance with Section 3463, remeasurements and other items are recognized directly in net assets on the balance sheet, rather than in the statement of operations, and presented as a separately identified item in the statement of changes in net assets. In adopting Section 3463, the university now determines all of its obligations for employee future benefits using funding assumptions rather than using accounting assumptions.

The following table provides a reconciliation of the net assets as at May 1, 2012 and the excess revenue over expenses for the year ended April 30, 2013 as previously reported with those computed after adopting Section 3463:

	Excess revenue over expenses for the year ended April 30, 2013	Net assets as at May 1, 2012
Balance, as previously reported	$ 49,637	$482,172
Employee future benefits:		
Funding valuation (1)	2,034	39,531
Remeasurements (2)	2,735	-
Restated balances	$ 54,406	$521,703

(1) The university now measures its defined benefit employee future benefit obligations using funding assumptions rather than accounting assumptions. This change only impacts non-pension employee future benefits since the university was already using funding assumptions to measure its pension obligations. At May 1, 2012, the employee future benefit obligation other than pension decreased by $39.5 million and internally restricted net assets increased by $39.5 million as a result of this change. The university's

excess revenue over expenses for the year ended April 30, 2013 increased by $2.0 million as a result of this change and the employee future benefits liability as at April 30, 2013 also decreased by $19.3 million as a result of changes in actuarial assumptions.

(2) Prior to adopting Section 3463, remeasurements for the period, including the difference between the actual return on plan assets and the expected return on plan assets using the discount rate, and actuarial gains and losses were recognized in the statement of operations along with current service and finance costs. These remeasurement costs are now recognized directly in net assets on the balance sheet and presented as a separate item in the statement of changes in net assets. This change has resulted in an increase in excess revenue over expenses for the year ended April 30, 2013 of $2.7 million.

4. Investments

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

(a) Total investments at fair value consist of the following components:

	2014	2013
Short-term bonds and guaranteed investment certificates	$115,385	$ 91,646
Long-term investments:		
Deposits and bankers' acceptances	34,409	84,154
Bonds		
Government	60,195	39,293
Corporate	124,121	135,717
Pooled	144,224	143,423
	328,540	318,433
Equity investments		
Canadian	95,350	75,949
US	12,852	10,679
Other international	63,189	21,626
	171,391	108,254
Total long-term investments	534,340	510,841
Total investments	$649,725	$602,487

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

	2014	2013
Interest, dividend income and realized gains (losses) earned from unrestricted resources	$ 10,692	$ 11,387
Change in unrealized gains from unrestricted resources	869	2,611
Investment income from endowments (note 13):		
Donor endowed	6,441	7,717
Internally endowed	5,317	4,709
Total investment income recognized in the year	$ 23,319	$ 26,424

(c) Included in long term investments are foreign currency derivatives as follows:

	2014		
	Maturity	Notional Amount	Carrying Value
Assets			
United States dollar forward contract	16 July 2014	$4,216	$26
United States dollar forward contract	16 July 2014	4,216	26
Euro forward contract	16 July 2014	161	-
		$8,593	$52
Liabilities			
Euro forward contract	16 July 2014	$6,961	$ 6
Great Britain pound forward contract	16 July 2014	3,505	31
Great Britain pound forward contract	16 July 2014	105	1
Japanese Yen forward contract	16 July 2014	2,733	25
Japanese Yen forward contract	16 July 2014	161	1
United States dollar forward contract	16 July 2014	7,181	10
United States dollar forward contract	16 July 2014	7,181	10
		$27,827	$84

As at April 30, 2014, the fair value of the forward contracts was determined with reference to a quotation from a derivatives dealer which the university accepts as the fair value of this instrument.

5. Capital Assets

Capital assets consist of the following:

	2014		2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 16,745	$ -	$ 8,707	$ -
Buildings (note 7)	875,488	224,971	817,631	205,183
Parking lots/roadways	6,358	3,387	6,358	3,078
Furniture and equipment	303,065	195,327	268,495	176,104
Library acquisitions	48,317	43,110	46,601	41,144
Works of art	3,326	-	3,259	-
	1,253,299	$ 466,795	1,151,051	$425,509
Less accumulated amortization	(466,795)		(425,509)	
Net book value	$ 786,504		$ 725,542	

Included in the cost of buildings is $63,106 (April 30, 2013 - $215,872) of construction in progress that is currently not being amortized.

6. Government Remittances Payable

Included in accounts payable and accrued liabilities at April 30, 2014 are government remittances payable of $13,171 (April 30, 2013 - $11,918).

7. Long-Term Debt

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

	2014	2013
1892160 Ontario Limited: Mortgage payable with 0% interest; $10,250 to be repaid February 14, 2017 and $10,250 to be repaid February 14, 2019	$ 20,500	$ -
Ontario Housing Corporation: Lease agreements payable with interest rates ranging from 6.875% to 7.125% and maturities between December 1, 2020 and June 1, 2021	4,476	4,932
Canada Mortgage and Housing Corporation: Mortgages payable with interest rates ranging from 5.375% to 6.25% and maturities between July 1, 2016 and February 1, 2019	994	1,267
Canadian Imperial Bank of Commerce: Term instalment loan, non-revolving and maturing on October 1, 2027 with a floating interest rate which is fixed at 6.045% through an interest rate swap	19,437	20,343
	45,407	26,542
Less current portion	(1,739)	(1,635)
Long-term debt	$ 43,668	$ 24,907

The university has entered into an interest rate swap contract to manage the cash flow risk associated with a long-term debt obligation. The contract has the effect of converting the floating rate of interest to a fixed rate of 6.045% (2013 - 6.045%) on $19,437 (2013 - $20,343) of debt obligation. 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 fair value of the swap at April 30, 2014 was ($4,627) (April 30, 2013 – ($6,068)). As the university has applied hedge accounting, the fair value is not included in the financial statements.

Future scheduled annual debt principal repayments are as follows:

2015	1,739
2016	1,848
2017	12,159
2018	1,890
2019	12,115
2020 and beyond	15,656
	$45,407

The total interest expense on long-term debt recognized in "Supplies and other" for the year ended April 30, 2014 was $1,626 (2013 - $1,723).

Residence buildings included in capital assets are pledged as collateral for debt (note 5).

8. 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:

	2014	2013
Balance, beginning of year	$224,648	$233,737
Contributions received during the year	192,028	183,224
Contributions transferred for capital purchases	(33,388)	(29,506)
Amounts transferred to endowment net assets	(7,184)	-
Contributions recognized as revenue during the year	(162,935)	(162,807)
Balance, end of year	$213,169	$224,648

9. 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. Effective January 1, 2014, the averaging period for determining final average earnings increases by one month at the end of each calendar month until it reaches an average of 60 consecutive months. 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%. Effective May 1, 2014, guaranteed indexation will change as follows: pension earned as of December 31, 2013 will be indexed at 100% of CPI to a maximum of 5%, and pension benefit earned as of date of retirement less the pension benefit earned as of December 31, 2013 will be indexed at 75% of CPI to a maximum of 5%.

The latest actuarial valuation for the registered pension plan was performed as at January 1, 2014. The next required actuarial valuation for the registered pension plan is January 1, 2017. The university measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year.

The university also has a benefit plan that provides other retirement benefits, including extended health care and life insurance and one that provides for long-term disability income benefits after employment, but before retirement.

The employee future benefits income/expense for the year includes employer cash contributions less pension expense resulting in an income of $15,435 (2013 - $7,386) and other benefit plans expense of $15,227 (2013 - $12,701). Remeasurements, which are recorded in the statement of changes in net assets are as follows:

	2014		2013	
	Pension Benefit Plan	Other Benefit Plans	Pension Benefit Plan	Other Benefit Plans
Difference between actual and expected return on plan assets	$ 14,500	$ -	$ 42,897	$ -
Actuarial losses	(102,284)	(22,697)	(8,910)	(19,351)
	$(87,784)	$(22,697)	$ 33,987	$(19,351)

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

	2014		2013	
	Pension Benefit Plan	Other Benefit Plans	Pension Benefit Plan	Other Benefit Plans
Fair value of plan assets	$1,231,708	$ -	$1,144,221	$ -
Accrued benefit obligation	1,325,057	234,826	1,165,221	196,902
Plan deficit	$ (93,349)	$(234,826)	$ (21,000)	$(196,902)

10. Deferred Capital Contributions

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

	2014	2013
Balance, beginning of year	$422,629	$393,223
Additions for capital purchases	36,515	52,108
Amortization of deferred capital contributions	(27,101)	(22,702)
Balance, end of year	$432,043	$422,629

11. Unrestricted Surplus

	2014	2013
Operational surplus	$ 15,580	$ 14,887
Unrealized gain on unrestricted investments	11,645	10,776
Land purchased with restricted funds	726	725
Provision for vacation pay	(11,424)	(11,066)
	$ 16,527	$ 15,322

12. Net Assets Internally Restricted

	2014	2013
Academic and academic support department carryforwards and operational commitments	$272,697	$270,858
Employee future benefits (note 9)	(328,175)	(217,902)
Ancillary enterprises	33,002	29,353
Unspent realized income on internally endowed investments	2,453	1,728
Unrealized gain (loss) on internally endowed investments (note 13)	3,760	676
Bridge financing for housing and other construction projects	(55,736)	(59,577)
Net assets invested in capital assets	315,416	283,064
	$243,417	$308,200

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

13. 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 external and internal 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:

	2014	2013
Donor endowed (cost)	$229,405	$215,261
Internally endowed (cost)	69,363	65,270
Unrealized gain on investments held for donor endowments	12,421	2,228
	$311,189	$282,759

Endowment net investment income includes the following:

	2014		2013	
	Donor Endowed	Internally Endowed	Donor Endowed	Internally Endowed
Realized income earned	$ 7,613	$ 2,233	$ 8,429	$ 2,344
Unrealized gains recognized as income	-	3,084	-	2,365
Income deferred	(1,172)	-	(712)	-
Income recognized in statement of operations (note 4b)	6,441	5,317	7,717	4,709
Increase in net assets:				
Unrealized gains	10,193	-	8,132	-
Preservation of capital	1,282	384	2,308	653
	$11,475	$ 384	$10,440	$ 653

14. Commitments and Contingencies

(a) The university is a member of a self-insurance co-operative, named CURIE, in association with other Canadian universities. Under this arrangement, a contractual agreement exists to share the property and liability insurance risks of member universities. The projected cost of claims is funded through members' premiums based on actuarial projections. As at December 31, 2013, CURIE had a surplus of $71,331 (2012 - $60,500), of which the university's pro rata share is approximately 4.2% (2012 - 3.7%) on an ongoing basis.

(b) 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, 2016. Based on the number of units available for rent as at April 30, 2014 the following are the annual lease payments committed:

2015 - $ 2,603   2016 - $2,662   2017 - $894

(c) The nature of the university's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2014, the university believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have a material impact on the university's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

15. Donations in Kind

On August 1, 2012, the university received a donation in kind of the shares of Techtown Realty Corp. with an appraised value of $22,500, which included $17,700 with respect to the value of the building and $4,800 for the value of Columbia Lake Health Club. In February of 2013, the corporation was dissolved and the assets fully vested in the university. The university recorded the building at $17,700, equipment for $913 and recognized an impairment of intangible assets acquired in the amount of $3,887.

16. Financial Instruments

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

(a) Currency risk

The university is exposed to foreign currency risk with respect to its investments denominated in foreign currencies because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar. To manage foreign currency risk, the university hedges a percentage of currency exposures for investments in the US and some other international markets (hedges for the US dollar, pound, yen and euro).

(b) Credit risk

The university is exposed to credit risk in connection with its accounts receivable and its short term and fixed income investments because of the risk of one party to the financial instrument may cause a financial loss for the other party by failing to settle an obligation. All corporate bonds are rated A or better (2013 - A or better) by recognized rating services. The university is also exposed to counterparty credit risk inherent in its interest rate swap agreement and foreign currency derivatives. In all contracts, the counterparty is a Canadian chartered bank and the university has assessed these risks as minimal.

(c) Interest rate risk

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

(d) Liquidity risk

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

(e) Other price risk

The university is exposed to other price risk through changes in market prices (other than changes from interest or currency rates) in connection with its equity and pooled fund investments.

17. Net Change in Non-Cash Balances

	2014	2013
Accounts receivable	$ (3,200)	$ 6,181
Inventories	(151)	99
Prepaid expenses	271	(2,467)
Accounts payable and accrued liabilities	2,355	(18,576)
Unearned revenue	3,003	5,519
Deferred cash contributions	(16,418)	(11,335)
	$(14,140)	$(20,579)