

FINANCIAL STATEMENTS

APRIL 30, 2022



UNIVERSITY OF
WATERLOO

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FINANCIAL STATEMENTS

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STATEMENT OF MANAGEMENT RESPONSIBILITY

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

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations developed by the Chartered Professional Accountants of Canada. Management believes the financial statements present fairly the University’s financial position as at April 30, 2022 and the results of its operations and its cash flows for the year then ended.

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

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

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

Financial statements for the year ended April 30, 2022 have been audited by Ernst & Young LLP. The independent auditor’s report outlines the scope of their audit and their opinion on the presentation of the information included in the financial statements.

Independent auditor's report

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

Opinion

We have audited the financial statements of the **University of Waterloo** [the "University"], which comprise the balance sheet as at April 30, 2022, and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2022, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Waterloo, Canada
July 22, 2022

Ernst & Young LLP

Chartered Professional Accountants

UNIVERSITY OF WATERLOO
BALANCE SHEET
as at April 30, 2022
(with comparative figures as at April 30, 2021)
(thousands of dollars)

	<u>2022</u>	<u>2021</u>
ASSETS		
<u>Current</u>		
Cash and cash equivalents	\$ 611,928	\$ 519,556
Short-term investments at fair value (note 4)	124,429	161,361
Accounts receivable	43,743	47,060
Inventories	1,707	1,681
Prepaid expenses	<u>19,955</u>	<u>17,486</u>
Total current assets	<u>801,762</u>	<u>747,144</u>
Investments at fair value (note 4)	811,990	759,385
Capital assets, net (note 5)	<u>881,783</u>	<u>906,733</u>
	<u><u>2,495,535</u></u>	<u><u>2,413,262</u></u>
LIABILITIES AND NET ASSETS		
<u>Current</u>		
Accounts payable and accrued liabilities (note 6)	79,466	75,410
Unearned revenue	124,084	111,152
Deferred contributions (note 7)	<u>364,287</u>	<u>367,939</u>
Total current liabilities	<u>567,837</u>	<u>554,501</u>
Employee future benefits (note 8)	411,620	277,894
Deferred capital contributions (note 9)	<u>433,853</u>	<u>434,614</u>
Total liabilities	<u>1,413,310</u>	<u>1,267,009</u>
NET ASSETS		
Unrestricted surplus (note 10)	13,697	26,839
Internally restricted (note 11)	603,851	677,492
Endowments (note 12)	<u>464,677</u>	<u>441,922</u>
	<u>1,082,225</u>	<u>1,146,253</u>
	<u><u>\$ 2,495,535</u></u>	<u><u>\$ 2,413,262</u></u>

Commitments and contingencies (note 13)

(See accompanying notes to the financial statements)

On behalf of the Board of Governors:

Cindy Forbes
Chair

Vivek Goel
President

UNIVERSITY OF WATERLOO
STATEMENT OF OPERATIONS
for the year ended April 30, 2022
(with comparative figures for the year ended April 30, 2021)
(thousands of dollars)

	<u>2022</u>	<u>2021</u>
REVENUES		
Academic fees	\$ 593,158	\$ 594,677
Donations	11,850	11,738
Grants and contracts	434,511	433,908
Sales, services and other revenues	112,943	75,599
Investment income (note 4)	13,057	58,350
Amortization of deferred capital contributions (note 9)	29,366	29,499
	<u>1,194,885</u>	<u>1,203,771</u>
EXPENSES		
Salaries	612,584	589,501
Employee benefits (note 8)	136,841	128,635
Cost of goods sold	11,346	5,910
Supplies and other	122,219	117,859
Travel	4,553	2,298
Minor repairs and renovations	12,375	9,878
Equipment, maintenance and rentals	25,877	24,631
Scholarships and bursaries	136,077	136,586
Municipal taxes and utilities	24,395	21,795
Amortization of capital assets	50,809	49,157
	<u>1,137,076</u>	<u>1,086,250</u>
Excess of revenues over expenses	\$ <u><u>57,809</u></u>	\$ <u><u>117,521</u></u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENT OF CHANGES IN NET ASSETS
for the year ended April 30, 2022
(with comparative figures for the year ended April 30, 2021)
(thousands of dollars)

	Unrestricted Surplus	Internally Restricted	Endowments	2022 Total	2021 Total
Net assets, beginning of year as previously presented	\$ 26,839	\$ 677,492	\$ 441,922	\$ 1,146,253	\$ 896,110
Adoption of amendments to CPA Canada Section 3463 (note 3)	(87,580)	—	—	(87,580)	—
Net assets, beginning of the year restated	<u>\$ (60,741)</u>	<u>\$ 677,492</u>	<u>\$ 441,922</u>	<u>\$ 1,058,673</u>	<u>\$ 896,110</u>
Excess of revenues over expenses	57,809			57,809	117,521
Change in net assets internally restricted (note 11)	73,641	(73,641)		—	—
Change in unrealized gain on investments held for donor endowments (note 12)			(13,625)	(13,625)	28,266
Employee future benefit remeasurement costs (note 8)	(36,284)			(36,284)	99,194
Internally endowed contributions (note 12)	(20,728)		20,728	—	—
Endowment contributions (note 12)			15,652	15,652	5,162
Net assets, end of year	<u><u>\$ 13,697</u></u>	<u><u>\$ 603,851</u></u>	<u><u>\$ 464,677</u></u>	<u><u>\$ 1,082,225</u></u>	<u><u>\$ 1,146,253</u></u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
STATEMENT OF CASH FLOWS
for the year ended April 30, 2022
(with comparative figures for the year ended April 30, 2021)
(thousands of dollars)

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Excess of revenues over expenses	\$ 57,809	\$ 117,521
Add (deduct) non-cash items:		
Change in unrealized gain on internally endowed investments (note 11)	4,641	(13,315)
Change in unrealized gain on unrestricted investments (note 10)	13,471	(5,549)
Amortization of capital assets	50,809	49,157
Amortization of deferred capital contributions (note 9)	(29,366)	(29,499)
Employee future benefits expense (note 8)	81,944	79,128
Employee future benefits contributions	(72,081)	(69,827)
Net change in non-cash balances (note 15)	<u>21,573</u>	<u>98,574</u>
 Cash provided by operating activities	 <u>128,800</u>	 <u>226,190</u>
FINANCING ACTIVITIES		
Contributions for capital asset purchases (note 9)	28,510	27,820
Endowment contributions (note 12)	<u>15,652</u>	<u>5,162</u>
 Cash provided by financing activities	 <u>44,162</u>	 <u>32,982</u>
INVESTING ACTIVITIES		
Purchases of capital assets (notes 5 and 15)	(22,737)	(35,648)
Net sales (purchases) of investments	<u>(57,853)</u>	<u>4,221</u>
 Cash used in investing activities	 <u>(80,590)</u>	 <u>(31,427)</u>
 Net change in cash and cash equivalents during the year	 92,372	 227,745
 Cash and cash equivalents, beginning of year	 <u>519,556</u>	 <u>291,811</u>
 Cash and cash equivalents, end of year	 <u>\$ 611,928</u>	 <u>\$ 519,556</u>

(See accompanying notes to the financial statements)

UNIVERSITY OF WATERLOO
NOTES TO THE FINANCIAL STATEMENTS
April 30, 2022
(thousands of dollars)

1. Description

University of Waterloo (the “University”) was incorporated in 1959 under the terms and provisions of the *University of Waterloo Act*. A new *University of Waterloo Act* was passed in 1972, which provided that the University continue as the corporation that was established in 1959.

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

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

2. Summary of Significant Accounting Policies

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

(a) Cash and cash equivalents

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

(b) Investments and investment income

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

(c) Other financial instruments

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

(d) Inventories

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

(e) Capital assets

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

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

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

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

(f) Revenue recognition

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

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

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

(g) Employee future benefits

The University has a defined benefit pension plan for its employees and provides other retirement and post-employment benefits such as extended health care and life insurance coverage. The University accounts for these plans using the immediate recognition approach. Under this approach, the University recognizes the accrued benefit obligation, net of the fair value of plan assets, on the balance sheet. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, plan amendments 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. The accrued obligation for unfunded plans is prepared using an actuarial valuation for accounting purposes. Employee future benefit plans' assets are measured at fair value as at the date of the balance sheet.

(h) Accounting estimates

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

(i) Foreign currency translation

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

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

Effective May 1, 2021, the University early adopted the amendments to Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations*, which requires not-for-profit organizations to apply changes in Section 3462 of Part II of the *CPA Canada Handbook – Accounting, Employee Future Benefits*. The amended standard removes the accommodation to allow the use of a funding valuation for defined benefit plans without a legislative, regulatory or contractual funding valuation requirement. This change impacts the University's non-pension employee future benefits and not its registered pension plan employee future benefits since the registered pension plan is required to prepare a funding valuation.

The University adopted the amendments to Section 3462 at the beginning of the first fiscal year in which these amendments are first applied in accordance with the transitional provisions in Section 3463. As such, as part of the transitional provisions applicable to these amendments, the cumulative effect of applying these amendments as at May 1, 2021 was recorded as an increase to the employee future benefit liability and an offsetting decrease in net assets of \$87,580. The adoption of these amendments had no impact on the financial statements of the University for the year ended April 30, 2021.

4. Investments

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

Total investments at fair value consist of the following components:

	<u>2022</u>	<u>2021</u>
Short-term bonds and guaranteed investment certificates	<u>\$124,429</u>	<u>\$161,361</u>
Long-term investments:		
Bonds		
Corporate	171,282	124,547
Pooled funds	<u>190,039</u>	<u>215,189</u>
	361,321	339,736
Equity investments (including pooled equity funds)		
Canadian	111,204	84,599
US	47,872	61,772
Other international	<u>291,593</u>	<u>273,278</u>
	450,669	419,649
Total long-term investments	<u>811,990</u>	<u>759,385</u>
Total investments	<u>\$936,419</u>	<u>\$920,746</u>

The investment income of \$13,057 recorded in the statement of operations for the year ended April 30, 2022 (2021 - \$58,350) consists of income related to investments held for endowments of \$12,276 (2021 - \$37,174) and income of investments other than those held for endowments of \$781 (2021 - \$21,176). Investment income is recorded net of fees.

5. Capital Assets

Capital assets consist of the following:

	<u>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 16,745	\$ —	\$ 16,745	\$ —
Buildings	1,146,435	412,943	1,142,495	386,795
Building equipment	42,959	2,529	35,542	962
Parking lots/roadways	7,133	5,454	6,985	5,199
Furniture and equipment	<u>290,171</u>	<u>200,734</u>	<u>275,961</u>	<u>178,039</u>
	1,503,443	<u>621,660</u>	1,477,728	<u>570,995</u>
Less accumulated amortization	<u>(621,660)</u>		<u>(570,995)</u>	
Net book value	<u>\$ 881,783</u>		<u>\$ 906,733</u>	

Included in the cost of buildings and building equipment is \$14,853 (2021 - \$60,804) of construction in progress that is currently not being amortized.

6. Government Remittances Payable

Included in accounts payable and accrued liabilities as at April 30, 2022, are government remittances payable of \$18,169 (2021 - \$17,451).

7. Deferred Contributions

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

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$367,939	\$325,303
Contributions received or receivable during the year	225,679	270,604
Contributions transferred for capital purchases	(37,480)	(14,485)
Contributions recognized as revenue during the year	<u>(191,851)</u>	<u>(213,483)</u>
Balance, end of year	<u>\$364,287</u>	<u>\$367,939</u>

8. Employee Future Benefits

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

An actuarial valuation is performed for the registered pension plan annually. The latest actuarial valuation for the registered pension plan was performed as at December 31, 2021 and has been filed with the pension regulator. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year.

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

The pension expense for the year is \$57,467 (2021 - \$59,830) and other employee future benefit plans expense is \$24,477 (2021 - \$19,298). Remeasurements, which are recorded in the statement of changes in net assets, are as follows:

	<u>2022</u>			<u>2021</u>		
	Registered Pension Plan	Other Benefit Plans	Total Benefit Plans	Registered Pension Plan	Other Benefit Plans	Total Benefit Plans
Difference between actual and expected return on plan assets	\$(134,632)	\$ -	\$(134,632)	\$ 159,751	\$ -	\$159,751
Actuarial gains (losses)	59,787	87,651	147,438	(54,412)	(5,496)	(59,908)
Plan amendments	(45,562)	(3,528)	(49,090)	-	(649)	(649)
Total employee future benefit remeasurement costs	<u>\$(120,407)</u>	<u>\$ 84,123</u>	<u>\$ (36,284)</u>	<u>\$ 105,339</u>	<u>\$ (6,145)</u>	<u>\$ 99,194</u>

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

	2022			2021		
	Registered Pension Plan	Other Benefit Plans	Total Benefit Plans	Registered Pension Plan	Other Benefit Plans	Total Benefit Plans
Fair value of plan assets	\$ 2,161,008	\$ -	\$2,161,008	\$2,168,966	\$ -	\$2,168,966
Accrued benefit obligation	<u>(2,343,247)</u>	<u>(229,381)</u>	<u>(2,572,628)</u>	<u>(2,236,875)</u>	<u>(209,985)</u>	<u>(2,446,860)</u>
Employee future benefit liability	<u>\$(182,239)</u>	<u>\$(229,381)</u>	<u>\$ (411,620)</u>	<u>\$(67,909)</u>	<u>\$(209,985)</u>	<u>\$(277,894)</u>

The accrued benefit obligation for the registered pension plan as at April 30, 2022 includes an actuarial reserve required by Ontario regulation (a provision for adverse deviation (PfAD)) of \$169,180 (2021 – \$161,500).

9. Deferred Capital Contributions

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

	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$434,614	\$436,150
Contributions for capital asset additions	28,605	27,963
Amortization of deferred capital contributions	<u>(29,366)</u>	<u>(29,499)</u>
Balance, end of year	<u>\$433,853</u>	<u>\$434,614</u>

10. Unrestricted Surplus

The unrestricted surplus consists of the following:

	<u>2022</u>	<u>2021</u>
Operational surplus	\$26,098	\$ 25,327
Unrealized gain on unrestricted investments	3,285	16,756
Land purchased with restricted funds	726	726
Provision for vacation pay	<u>(16,412)</u>	<u>(15,970)</u>
	<u>\$13,697</u>	<u>\$ 26,839</u>

11. Internally Restricted Net Assets

Internally restricted net assets consist of the following:

	<u>2022</u>	<u>2021</u>
Academic and academic support department carryforwards and operational commitments	\$603,040	\$548,700
Employee future benefits (note 8)	(411,620)	(277,894)
Ancillary enterprises	13,117	6,864
Unspent realized income on internally endowed investments	10,219	23,573
Unrealized gain on internally endowed investments	15,553	20,194
Bridge financing for housing and other construction projects	(73,662)	(115,338)
Invested in capital assets	<u>447,204</u>	<u>471,393</u>
	<u>\$603,851</u>	<u>\$677,492</u>

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

12. Endowments

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

The University's overall objective with respect to endowments is to achieve an annual realized investment income that provides for both spending and inflation protection. Each year, the portion of the realized investment income that is made available for spending is allocated to individual endowments at a rate that is established annually. Another portion of the realized investment income is used to provide inflation protection based on the Consumer Price Index. The residual amount of realized investment income, if any, is used to create a reserve to cover spending and inflation protection in years with low investment returns. The allocation to each endowment is based on the weighted-average principal of the endowment for the fiscal year. Unspent expendable amounts or parts thereof may be carried forward for future expenditures or added to the endowment's principal.

Investment income on endowments is recorded in the statement of operations if it is available for spending at the discretion of the University or if the conditions of any restrictions have been met (notes 4 and 7). The amount of realized investment income that was reinvested for preservation of capital for the year ended April 30, 2022, was \$20,463 (2021 - \$5,450).

Net assets restricted for endowment consist of the following:

	<u>2022</u>	<u>2021</u>
Donor endowed (original cost)	\$287,735	\$272,083
Internally endowed (original cost plus inflation protection)	147,084	126,356
Unrealized gain on investments held for donor endowments	<u>29,858</u>	<u>43,483</u>
	<u>\$464,677</u>	<u>\$441,922</u>

13. 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, 2021, CURIE had an accumulated surplus of \$105,790 (2020 - \$99,449), of which the University's pro rata share is approximately 4.3% (2020 - 4.2%) on an ongoing basis. The University does not have access to its pro rata share of the accumulated surplus, and accordingly, no amount is recorded in these financial statements.
- (b) The contractually committed estimated cost to complete construction projects in progress as at April 30, 2022, which will be funded by operations, donations and government grants, is approximately \$10,953 (2021 - \$6,337).
- (c) The University has entered into a long-term land lease and operating agreement with Ivest Properties Limited and London Property Corp. for the construction and rental of student housing. The University has a commitment to rent units in the townhouse complex with an option to terminate. The University is committed until at least September 1, 2023. Based on the number of units available for rent as at April 30, 2022, the following are the annual lease payments committed:

2023 - \$3,091 2024 - \$3,163 2025 - \$1,061

- (d) The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. As at April 30, 2022, the University believes that it has valid defences and appropriate insurance coverage in place on certain claims that are not expected to have a material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability can be estimated or adjustments to the amount recorded are determined to be required.

14. Financial Instruments

The University is exposed to various financial risks through transactions in financial instruments. The majority of these risks are related to investments of the endowment funds and of a special purpose trust. To manage the risks of these investments, the University manages these investment mandates within the terms of the relevant Statement of Investment Guidelines, which are approved by the University's Board of Governors. The asset mix of each investment mandate is maintained within the approved ranges for each investment asset category and is considered against a benchmark portfolio; the asset mix ranges reflect the University's long-term return objectives and risk appetite.

(a) Foreign currency risk

The University is exposed to foreign currency risk from direct and indirect (e.g., pooled funds) investments that are denominated in currencies other than the Canadian dollar. Fluctuations caused by changes in the currency rates applied to these investments can result in a positive or negative effect on the fair value of the investments and on the cash flows from these investments.

(b) Credit risk

The University is exposed to credit risk in connection with its accounts receivable and its fixed income investments because of the risk of a financial loss caused by a counterparty's potential inability or unwillingness to fulfill its contractual obligations. The University assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible. To manage the credit risk

exposed from fixed income investments, the University invests in bonds with investment grade ratings by recognized credit rating services.

(c) Interest rate risk

The University is exposed to interest rate risk with respect to its fixed income investments because the fair value will fluctuate with changes in market interest rates. This risk is managed by having diversified investments and by ensuring the asset mix of each investment mandate is maintained within the approved ranges for each investment asset category.

(d) Liquidity risk

The University is exposed to liquidity risk if it does not maintain sufficient liquidity to meet obligations associated with its financial liabilities. The University mitigates this risk by ensuring its expendable funds are in cash and investments that preserve capital and maintain liquidity, and through ongoing monitoring of cash levels and spending requirements.

(e) Other price risk

The University is exposed to other price risk through changes in market prices (other than changes arising from interest rate or foreign currency risks) in connection with its investments in equity securities and equity pooled fund investments. The factors that cause the changes in market prices may affect a specific investment, its issuer, or they may affect similar securities traded in the market. Significant global economic uncertainty and volatility continues to have widespread impact on financial markets. This risk is managed by having diversified investments and by ensuring the asset mix of each investment mandate is maintained within the approved ranges for each investment asset category; the approved ranges reflect the University's risk appetite.

15. Net Change in Non-cash Balances

	<u>2022</u>	<u>2021</u>
Accounts receivable	\$ 3,317	\$ (4,080)
Inventories	(26)	523
Prepaid expenses	(2,469)	826
Accounts payable and accrued liabilities	4,056	9,249
Less capital asset purchases in accounts payable	(3,028)	(7,856)
Unearned revenue	12,932	61,673
Deferred cash contributions	<u>6,791</u>	<u>38,239</u>
	<u>\$21,573</u>	<u>\$ 98,574</u>

16. Comparative Financial Statements

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2022 statements.

UNIVERSITY OF
WATERLOO

