

UNIVERSITY OF GUELPH

ANNUAL FINANCIAL REPORT

Fiscal Year 2015





Joint Message from the President & Vice-Chancellor and the Chair of the Board of Governors

We are pleased to provide the 2015 financial report for the University of Guelph.

This report is intended to account for the University's use of public funds and revenue received from students and benefactors. The document meets our government requirements for financial reporting and provides an important measure of our efforts to manage and maximize resources to fulfill the University's long-term academic, research and service mission.

As in past years, the University faces continued financial and economic uncertainties. We remain focused on improving our financial strength while carrying out our mission of teaching, research, student engagement and social responsibility.

Among this year's highlights, we have launched a strategic renewal process for the institution. Renewal of U of G's strategic plan – last revised 20 years ago – will help in guiding our planning over the next 5 to 10 years, and will provide an important opportunity for renewal, and engagement of the University community and our partners.

The University of Guelph continues to attract top students, even in the face of declining system-wide applications from secondary school, with our share of secondary school applications province-wide increasing slightly this year.

U of G attracted almost \$140 million in sponsored research in 2014-15, an amount that places us among Canada's top research universities. We continue to attract outstanding faculty and staff who enhance the educational experience for undergraduate and graduate students and who advance the University's reputation for both curiosity-driven and applied research.

The University of Guelph continues to stand out among Canadian universities for its focus not only on teaching and research but also on community engagement and volunteerism.

We wish to thank members of the Board of Governors for their oversight and direction provided to U of G's senior leadership team. The University's financial position reflects the continuing commitment to fiscal prudence and risk management demonstrated by the Board of Governors in partnership with all members of the University community.

We thank University community members who oversee financial affairs along with the Board, as well as U of G's volunteer senators, students, employees and other

stakeholders. And we thank U of G's leadership team and faculty and staff for their dedication to furthering the University's mission in teaching, research and service.



Mr. Kevin Golding
Chair, Board of Governors
University of Guelph



Dr. Franco J. Vaccarino
President and Vice-Chancellor
University of Guelph

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Financial Summary

Overall the University continued to generate positive annual net results contributing to an increase in Net Assets by \$134.6 million over last year. A major contributor to this position included another year of significant returns on investments which continued to add earnings to both endowments and the pension portfolios. In addition, operating results across all funds continued to be positive.

Total University

| \$ millions | 2015 | 2014 | Chg. | % |
|---|-------|--------|--------|------|
| Total Revenue | 759.4 | 745.2 | 14.2 | 1.9% |
| Total Expenses | 689.4 | 669.9 | 19.5 | 2.9% |
| Gain (Loss) on Int. Swaps | (3.4) | 4.6 | (8.0) | |
| Revenue Less Expenses | 66.6 | 79.9 | (13.3) | |
| Direct Changes to Net Assets ¹ ; | | | | |
| Endowment Contributions | 18.0 | 22.8 | (4.8) | |
| EFB ² Re-measurements | 50.0 | (21.7) | 71.7 | |
| Total Changes to Net | 134.6 | 81.0 | 53.6 | |

Revenue

Total University revenue increases were constrained by another year of MTCU³ provincial grant reductions. Offsetting increases were realized in student tuition and fees mainly due to fee increases as enrolments remained flat compared to 2014. Funding under the University's research and services contract with OMAFRA⁴ increased in direct proportion to spending within the contract. Other Revenue increases included donations and contributions

¹ "Direct Changes to Net Assets" reflects changes to externally restricted endowments from contributions/ investment returns and changes in post-employment plan assumption/investments that, under accounting policy, do not flow through annual revenues or expenses.

² Employee Future Benefits – both pension and non-pension

³ Ministry of Training Colleges and Universities

⁴ Ontario Ministry of Agriculture and Rural Affairs. Under the OMAFRA contract, revenue is recorded to the extent of approved expenses; no net income/loss is permitted under the terms of the contract.

from the University's joint venture in Guelph-Humber.

Total University Revenue

| \$ millions | 2015 | 2014 | Chg. | % |
|---------------------------|-------|-------|-------|-------|
| Prov. Grants MTCU | 179.0 | 183.3 | (4.3) | -2.4% |
| Prov. Contract- OMAFRA | 69.6 | 64.0 | 5.6 | 8.7% |
| Student Tuition/Fees | 236.6 | 228.7 | 7.9 | 3.5% |
| Other Grants & Contracts | 108.6 | 109.9 | (1.3) | -1.2% |
| Sales of Goods & Services | 81.0 | 78.2 | 2.8 | 3.6% |
| Other | 84.6 | 81.1 | 3.5 | 4.4% |
| | 759.4 | 745.2 | 14.2 | 1.9% |

Expenses

Overall University expenses increased 2.9% or 1% over revenue increases. While salary costs increased by 1.1% reflecting continued multi-year plan cost controls, benefits increased mainly due to the accounting charge for non-pension post-employment costs. Other Expenses included \$14 million incurred for a provincially owned and funded construction project (Elora Dairy facility), software purchases and library information resources. Utility costs declined reflecting both lower energy costs and continuing energy conservation investments. Interest costs declined slightly as the University reduced overall debt levels during the year.

University Expenses

| \$ millions | 2015 | 2014 | Chg. | % |
|-----------------------|-------|-------|-------|-------|
| Salaries | 334.0 | 330.4 | 3.6 | 1.1% |
| Benefits | 86.3 | 81.0 | 5.3 | 6.5% |
| Supplies and Services | 60.6 | 58.8 | 1.8 | 3.1% |
| Other Expenses | 94.3 | 84.5 | 9.8 | 11.6% |
| Utilities | 25.2 | 26.8 | (1.6) | -6.0% |
| Student Assistance | 33.7 | 33.1 | 0.6 | 1.8% |
| Interest | 12.2 | 12.4 | (0.2) | -1.6% |
| Capital Amortization | 43.1 | 42.8 | 0.3 | 0.7% |
| | 689.4 | 669.8 | 19.6 | 2.9% |

Net Income by Fund

Net income was lower than 2014 as expenses increased at rates higher than revenues. The majority of the expenditure increases were associated with non-salary operating costs for

non-structural expenses such as construction costs, software and information resources purchases.

Analysis of net income by major fund shows the majority of the decline relative to 2014 was in the Operating Fund as expenses increased at a greater rate than revenues. Of the Operating Fund net income of \$21.7 million, \$6 million was planned as part of an annual repayment of a 2007 restructuring deficit. The balance of the Operating Fund net income was mainly underspending by colleges and operating units relative to budget allotments.

Ancillary units (e.g., food, student housing, real estate) experienced a decline mainly as a result of the unrealized loss on interest rate swaps⁵.

Change in Net Income By Fund

| \$ millions | 2015 | 2014 | Change | % |
|-----------------------|------|------|--------|--------|
| Operating Fund | 21.7 | 33.0 | (11.3) | -34.2% |
| Capital | 10.3 | 9.7 | 0.6 | 5.2% |
| Ancillary Fund | 7.7 | 11.2 | (3.5) | -31.3% |
| Research and Trust | 14.8 | 10.6 | 4.2 | 39.6% |
| Endowments | 12.1 | 15.4 | (3.3) | -21.4% |
| Revenue Less Expenses | 66.6 | 79.9 | (13.3) | -16.8% |

Net Assets

University Net Assets grew significantly (\$134.6 million), driven by not only annual positive operating results across most funds but also gains on invested pension plan assets and the endowment portfolio. In addition, the Invested in Capital Assets balance increased as capital additions (equipment and building) increased faster than depreciation and debt.

The Unrestricted deficit decreased by \$74 million mainly due to the accounting recognition of

⁵ Interest rate swaps are contracts with financial institutions that fix the University interest rate on capital debt. Under accounting policy they are revalued each year against market interest rates. These are unrealized changes and as the debt is retired, these valuation changes will no longer occur.

Employee Future Benefit (EFB) of \$50 million reflecting the 10% annual return on invested pension plan assets. In addition, the University transferred \$23.1 million from Internal Restricted Operating funds to Unrestricted to fully retire the one-time 2007 restructuring deficit. This action was part of the overall 2015/2016 operating budget assumptions. The Unrestricted Deficit now is entirely associated with post-employment costs.

The Endowment portfolio also had excellent returns of 10.8% contributing \$20 million of the \$30 million increase in the Endowment Net Assets. A further \$10 million was added from donations and proceeds of real estate activities during the year.

Change in Net Assets

| \$ millions | 2015 | 2014 | Change |
|-----------------------------|---------|---------|--------|
| Capital Assets | 458.8 | 426.6 | 32.2 |
| Internally Restricted; | | | |
| – Operating Fund | 195.5 | 206.0 | (10.5) |
| – Other Funds | 64.6 | 56.3 | 8.3 |
| Total Internally Restricted | 260.1 | 262.3 | (2.2) |
| Unrestricted Deficit | (306.6) | (381.0) | 74.4 |
| Endowments | 320.2 | 290.0 | 30.2 |
| Total University Net Assets | 732.5 | 597.9 | 134.6 |

Capital Expenditures

The University continued to invest in capital acquisitions with \$58.7 million (\$49.4 million in 2014) in spending on capital equipment, major renovations, and buildings.

Capital Expenditures

| \$ millions | 2015 | 2014 | Chg. |
|------------------------------------|------|------|-------|
| Major Buildings | 16.3 | 8.0 | 8.3 |
| Equipment and Other | 18.3 | 22.1 | (3.8) |
| Main Campus Facilities Renewal | 13.7 | 7.1 | 6.6 |
| Student Housing Facilities Renewal | 10.4 | 12.2 | (1.8) |
| Total | 58.7 | 49.4 | 9.3 |

2015 saw the beginning of a number of major building projects that will occur over the next several years. They include the new Mitchell Centre (total project of \$45.4 million of which

\$6.9 million was spent in 2015) and the Macdonald Hall refit (\$12.3 million of which \$2.1 million was spent in 2015). As these projects are completed spending will occur up to the approval costs.

Other major projects completed in 2015 include \$2.6 million for the reconstruction of the South Ring Road entrance and \$1.9 million in animal hospital renovation in the Ontario Veterinary College.

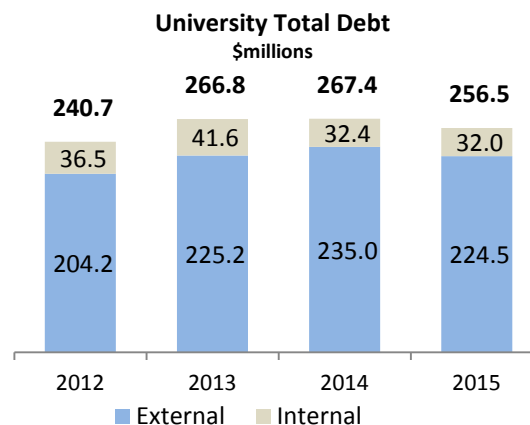
In addition, the University continued to invest in facilities renewal and energy conservation. In 2007 the University began a series of five-year capital financing plans with spending directed to facilities renewal programs. With a growing deferred maintenance⁶ backlog, capital debt was authorized by the Board for critical infrastructure projects. In recent five-year plans major high priority academic related projects were added. In 2015 a \$26 million energy retrofit project (of which \$2.1 million was spent in 2015) was begun to help mitigate projected energy usage and cost. Investments also continue in student housing to maintain infrastructure and improve the quality of the residence experience.

Debt

The University uses financing from both internal⁷ and external sources to fund high priority capital projects (currently no borrowing is required for operating purposes). Limits and reviews of debt are consistent with the Board-approved policy for capital debt management. In fiscal 2015, no new borrowing was undertaken and repayments totaled \$10.9 million.

⁶ Current estimates are that the total deferred maintenance for the University is \$330 million.

⁷ When there is sufficient operating liquidity, funds may be temporarily advanced to finance capital expenditures. As with external debt, internal financing must be repaid, usually of a period not exceeding 10 years.



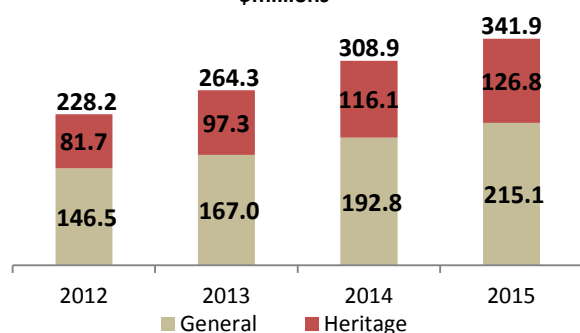
For currently active projects (e.g., Mitchell building and energy retro fit project), up to \$70 million in new debt has been approved by the Board. It is expected that none of this approved debt will be required until later in 2016.

The University is reviewed annually by two credit rating agencies, Standards and Poor’s and DBRS which consider debt levels in the context of overall fiscal health and peer institutions. The University maintained its rating with these agencies in 2015 at A+ and A respectively.

Endowments

University endowments consist of two major components, the Heritage Fund and the General Fund. While both components are invested as a single pool, each has its own payout formula and source of capital growth. University endowments had another very good year with returns, net of expenses, of 10.8% (15.6% in 2014). Adding to the portfolio growth were capital additions of \$10.1 million consisting of donations to the General fund of \$4.7 million and the proceeds of real estate activities added to the Heritage Fund of \$5.4 million.

Endowment Assets - Market Values at April 30th
\$millions



Average gross (before expenses) annual returns over the past five years have been 11.4%. These returns have more than recovered losses experienced in 2008 and 2009. Recent returns have been below the passive benchmark mainly because of a value-based bias in equity fund managers who tend to underperform relative to indices in periods of major market increases.

Annualized Endowment Performance

As at April 30, 2015

| | Endowment Return (Gross) | Benchmark Return | Relative Performance |
|-------|--------------------------|------------------|----------------------|
| 1 Yr | 11.9% | 13.5% | -1.5% |
| 2 Yrs | 14.2% | 15.1% | -0.9% |
| 3 Yrs | 14.4% | 14.0% | 0.4% |
| 4 Yrs | 11.1% | 10.5% | 0.6% |
| 5 Yrs | 11.4% | 10.6% | 0.8% |

Under University endowment polices, spending from endowments is limited each year to protect donated capital and real spending over time. With recent investment returns, annual spending from endowments has increased to \$11.5 million in 2015 mainly as a result of the Heritage Fund payout of \$7.0 million. The Heritage Fund formula uses a five-year rolling average of annual investment returns and can be volatile reflecting fluctuations in equity markets on April 30.

Annual Payout from Endowments

| \$millions | 2012 | 2013 | 2014 | 2015 |
|---------------|------|------|------|------|
| General | 3.0 | 3.3 | 4.1 | 4.5 |
| Heritage Fund | - | - | 1.4 | 7.0 |
| Total | 3.0 | 3.3 | 5.5 | 11.5 |

Accruals for Employee Future Benefits

The University is responsible for the funding of post-employment defined benefit plans that provide both pension and non-pension benefits to retirees. Expenses and accrued obligations for these benefits are recorded in the University's financial statements using methods as prescribed under accounting policy.

In 2015, overall Employee Future Benefits ("EFB") net obligations (liabilities) decreased by \$53.9 million due to the major market gain in pension assets of 10%.

EFB Asset/Liability

| \$ millions | 2015 | 2014 | Chg. | % |
|---------------------------|---------|---------|--------|--------|
| Pension Plans | | | | |
| • Assets | 1,339.1 | 1,218.0 | 121.1 | 9.9% |
| • Obligations | 1,301.0 | 1,250.0 | 51.0 | 4.1% |
| Pension Asset (Liability) | 38.1 | (32.0) | 70.1 | |
| Non-Pension Liability | (279.8) | (263.6) | (16.2) | 6.2% |
| EFB Net Obligations | (241.7) | (295.6) | 53.9 | -18.2% |

EFB expenses increased 9.6% due to pension plan current service costs. "Re-measurements" reflect the accounting treatment of changes in assumptions and actual experience compared to assumptions during the year. Re-measurement changes are charged directly to Net Assets and not the Statement of Operations. In 2015, \$50 million was recorded as an increase in Net Assets due to pension plan assets gains over the year.

EFB Expenses and Impact on Net Assets

| \$ millions | 2015 | 2014 | Chg. | % |
|-----------------------------------|--------|------|--------|-------|
| Expenses | | | | |
| • Pension Plans | 22.6 | 18.6 | 4.0 | 21.5% |
| • Non-Pension Plans | 22.9 | 22.9 | 0.0 | 0.0% |
| Total Expenses | 45.5 | 41.5 | 4.0 | 9.6% |
| Add: Re-measurements | (50.0) | 21.7 | (71.7) | |
| Decrease (Increase) in Net Assets | (4.5) | 63.2 | (67.7) | |

Cash contributions to EFB plans are based on legislative requirements. In 2015, pension contributions increased due to special payment

requirements arising from the 2013 actuarial valuation.

EFB Contributions

| \$ millions | 2015 | 2014 | Chg. | % |
|---------------------|------|------|------|-------|
| Cash Contributions | | | | |
| • Pension Plans | 44.7 | 32.9 | 11.8 | 35.9% |
| • Non-Pension Plans | 4.6 | 4.3 | 0.3 | 7.0% |
| Total Contributions | 49.3 | 37.2 | 11.5 | 30.9% |

The Operating Fund

The Operating Fund reflects 70% of total University revenue and is the major underpinning of all teaching and research activities. Funding primarily comes from provincial grants and student fees.

Revenues

Overall revenue increased by 2.3%, the majority of which was created through increased tuition revenue. MTCU provincial grants decreased due to declines in provincially-funded⁸ graduate enrolments and the second year of a scheduled general provincial grant reduction. The increase in OMAFRA provincial contract revenue reflects an increase in agreement spending activity.

Operating Fund Revenue

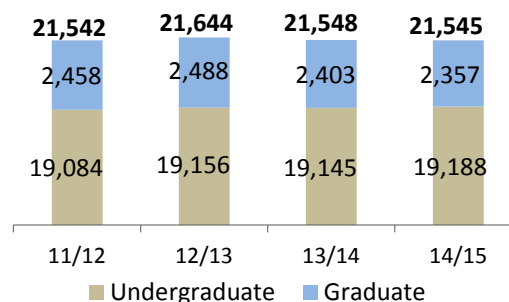
| \$ millions | 2015 | 2014 | Chg. | % |
|-------------------------|-------|-------|-------|-------|
| Provincial Grants MTCU | 178.0 | 180.6 | (2.6) | -1.4% |
| Provincial - OMAFRA | 69.6 | 64.0 | 5.6 | 8.7% |
| Student Tuition/Fees | 193.0 | 186.2 | 6.8 | 3.7% |
| Sales & Other Contracts | 56.1 | 56.8 | (0.7) | -1.2% |
| Other | 25.1 | 22.7 | 2.4 | 10.7% |
| Total | 521.8 | 510.3 | 11.5 | 2.3% |

Enrolment overall remained relatively flat from 2014 with declines in graduate numbers offset by increases in some other degree-credit programs. There were also small increases in both undergraduate and graduate international student numbers (Total international student

⁸ The province will provide grant funding based only on specific eligibility criteria. For example, international students are not funded and for domestic students, the University can lose support if students are enrolled past prescribed periods of eligibility.

enrolment at the University is about 1,000 FTE's⁹ or about 5% of total enrolment).

Student Enrolment in FTE's
(University Credit Programs)



Expenses

Operating Fund expenses increased 4.8% over 2014. Salaries increased mainly due to negotiated settlements and benefits increased mainly due to the accounting charge for post-employment costs. Under Other Expenses a number of increases were recorded including library acquisitions, insurance losses, and major software acquisitions. Much of this spending is expected to be non-recurring.

Operating Fund Expenses

| \$ millions | 2015 | 2014 | Chg. | % |
|---------------------|-------|-------|-------|-------|
| Salaries | 273.4 | 269.5 | 3.9 | 1.4% |
| Benefits | 77.4 | 72.1 | 5.3 | 7.4% |
| Supplies & Services | 42.4 | 38.4 | 4.0 | 10.4% |
| Other Expenses | 37.9 | 31.5 | 6.4 | 20.3% |
| Utilities | 24.1 | 25.6 | (1.5) | -5.9% |
| Student Assistance | 21.0 | 20.7 | 0.3 | 1.4% |
| Interfund Transfers | 23.9 | 19.5 | 4.4 | 22.6% |
| Total | 500.1 | 477.3 | 22.8 | 4.8% |

Interfund Transfer¹⁰ increases were in-year contributions for major capital projects such as the energy retrofit project and the new Mitchell athletic centre. These funds were transferred to the Capital Fund where the external expenses are recorded.

⁹ Full-Time Equivalents; meaning a number part-time head counts are consolidated into a full time equivalent.

¹⁰ Interfund Transfers are funds allocated among the different funds within the University; at the University level these transfers sum to zero.

Operating Fund Net Assets

Net Operating fund results are allocated based on a number of practices and policies.

Internally Restricted funds are funds created from accumulated annual net income which is subsequently allocated for specific future purposes. Of the 2015 Operating Fund annual net income of \$21.7 million, \$12.3 million was generated by divisional (colleges and departments) underspending of budget

allocations, \$6.0 million was a targeted repayment of the Operating Deficit, \$6.4 million was added to central reserves and \$3.0 million was the annual accounting expense adjustment for post-employment costs. Transfers from Reserves totaled \$29.2 million, \$22.4 million of which retired the 2007 Operating deficit and \$6.8 million in funding to help cover 2015 pension contribution requirements.

Operating Fund - Net Assets

| \$millions | Opening Balances | 2015 Annual Results | Transfers (From)To Reserves | EFB Re- measure | Closing Balances |
|------------------------------------|---------------------|------------------------|-----------------------------------|--------------------|---------------------|
| Internally Restricted: | | | | | |
| • Divisional Reserves | 58.7 | 12.3 | | | 71.0 |
| • Central Reserves | 64.6 | 6.4 | (23.0) | | 48.0 |
| • Post-Employment Reserves | 80.8 | | (6.8) | | 74.0 |
| • Self-insurance & GH | 1.9 | | 0.6 | | 2.5 |
| Total Internally Restricted | 206.0 | 18.7 | (29.2) | | 195.5 |
| Unrestricted | | | | | |
| • Post-Employment | (354.3) | (3.0) | 6.8 | 50.0 | (300.5) |
| • Operating | (28.4) | 6.0 | 22.4 | | - |
| Total Unrestricted Deficit | (382.7) | 3.0 | 29.2 | 50.0 | (300.5) |
| Total Operating Net Assets | (176.7) | 21.7 | - | 50.0 | (105.0) |

This concludes the summary section of the annual report. Additional information including the University's major financial indicators is included in the next section. The final section is the actual audited financial statements, with notes, for the 12 month period ending April 30, 2015.

Supplementary Information

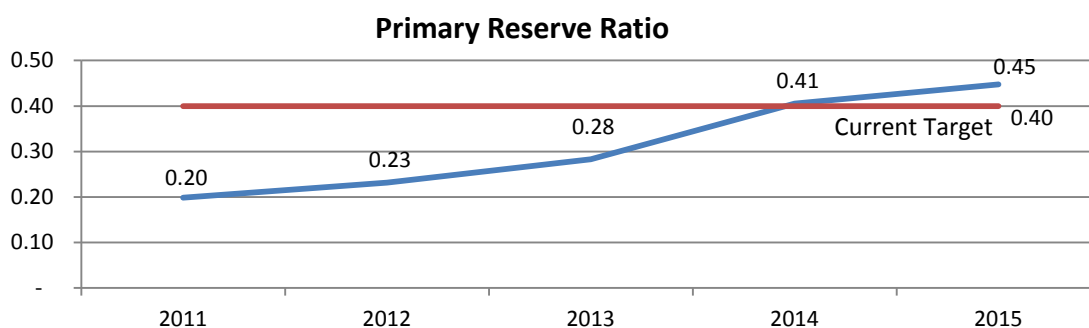
Financial Health Indicators

The following metrics use information from the audited statements to provide measures of both overall fiscal strength and more specific information related to University debt.

Overall Financial Health – Four Measures

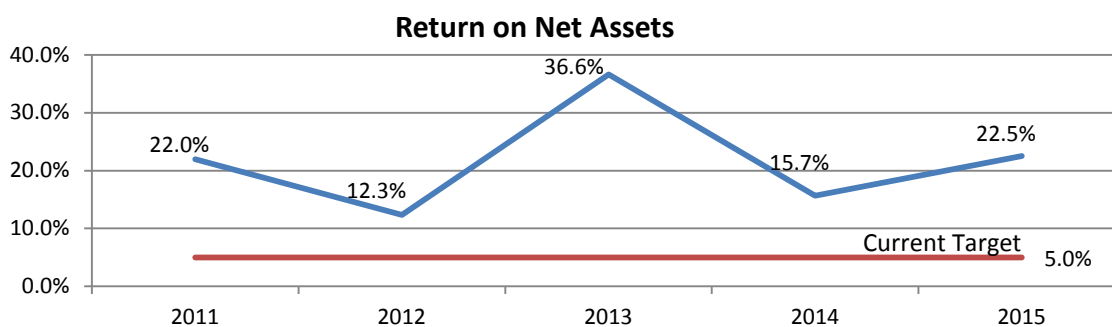
1. PRIMARY RESERVE RATIO: Summarizes financial health and flexibility by indicating how long the University could function only using its expendable reserves without relying on additional net assets generated by operations. It compares expendable net assets to expenses. Expendable net assets consist of internally restricted endowments, internally restricted net assets and unrestricted surplus (deficit) adjusted to exclude amounts related to employee future benefits. A ratio above 0.4 is the ability to cover 4.8 months of expenses.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|-----------------------|---------|---------|---------|---------|---------|----------------------|
| Expendable Net Assets | 128,707 | 151,778 | 189,322 | 271,553 | 308,744 | 180,037 140% |
| Total Expenses | 649,060 | 654,320 | 668,836 | 669,881 | 689,408 | 40,348 6% |



2. RETURN ON NET ASSETS: Measures whether the University is growing its total resources over time. It compares the change in net assets over opening net assets. It is best used when compared over a longer time period. Further review of the components of net assets and their effective change could be assessed on a separate basis. On a combined basis, a growth rate of 5% is expected over time.

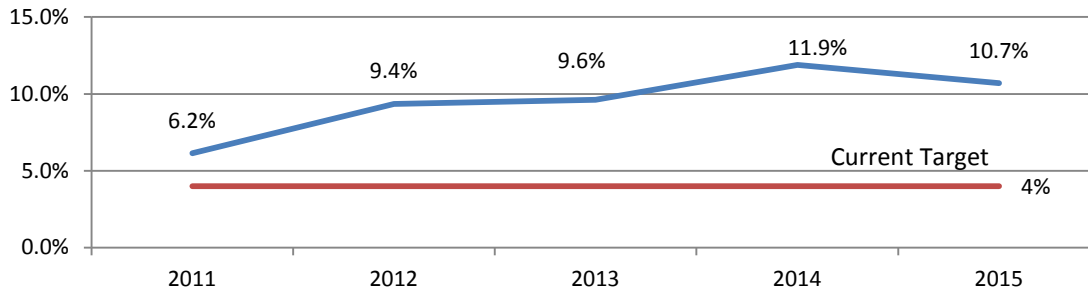
| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|----------------------|---------|---------|---------|---------|---------|----------------------|
| Change in Net Assets | 49,649 | 41,590 | 138,536 | 80,984 | 134,592 | 84,943 171% |
| Opening Net Assets | 225,923 | 336,793 | 378,383 | 516,919 | 597,903 | 371,980 165% |



3. NET OPERATING REVENUES RATIO: Answers the question “Are we living within our means?” It compares operating net income over operating revenues. Since it only looks at operations, it excludes most restricted funds that are for a specific purpose, e.g. research and endowment funding. Again a long term review of this ratio should be considered, as it can be volatile year over year. A 4% long term benchmark is the expected target.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|----------------------|---------|---------|---------|---------|---------|----------------------|
| Operating Net Income | 33,519 | 53,145 | 55,969 | 69,913 | 64,243 | 30,724 92% |
| Operating Revenues | 544,904 | 567,799 | 581,946 | 587,764 | 600,490 | 55,586 10% |

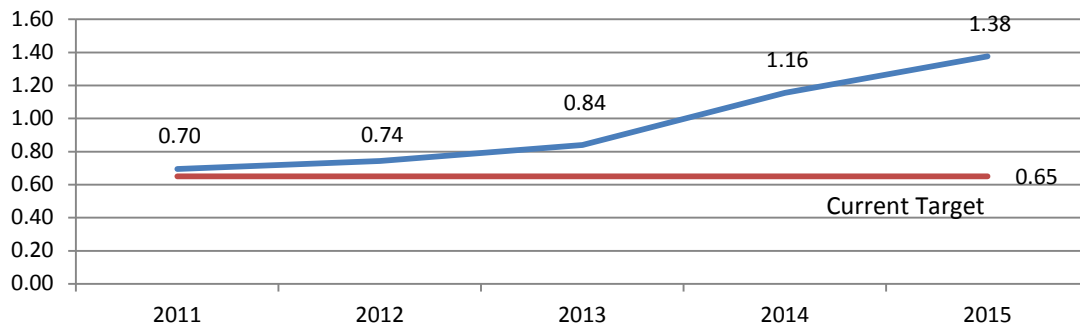
Net Operating Revenues Ratio



4. VIABILITY RATIO: Gauges the extent to which the University has available resources to cover its debt - essentially a “wind-up” ratio for external obligations. It calculates expendable net assets over external debt. The ratio assists in assessing current debt capacity and the ability to issue new debt. A ratio of 0.65 has been set as a target.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|-----------------------|---------|---------|---------|---------|---------|----------------------|
| Expendable Net Assets | 128,707 | 151,778 | 189,322 | 271,553 | 308,744 | 180,037 140% |
| External Debt | 185,060 | 204,244 | 225,156 | 235,000 | 224,456 | 39,396 21% |

Viability Ratio

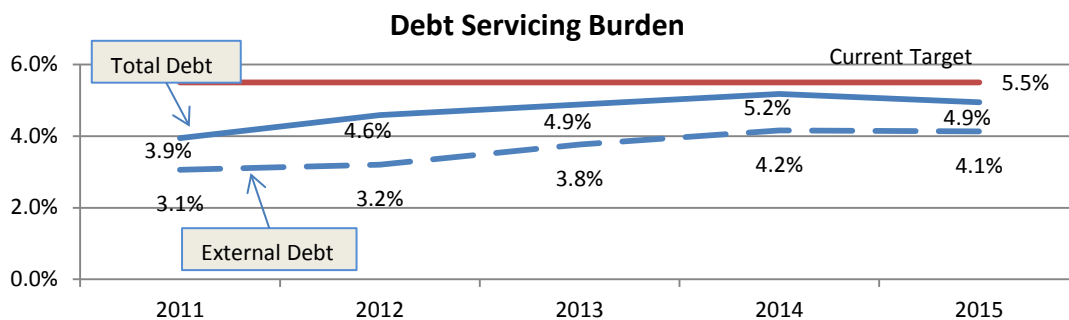


Debt Specific Metrics

The University has established specific metrics to help manage debt in its [Capital Debt Policy](#). Key ratios include the Viability Ratio above and Debt Servicing Burden below. Other debt metrics identified include Interest Burden, Debt Service Coverage, and Debt to FTE.

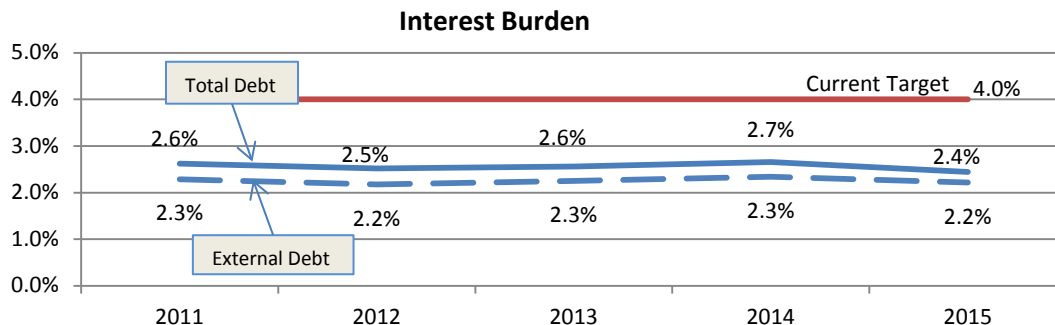
DEBT SERVICING BURDEN: This key ratio measures the extent to which total debt servicing is a portion of the University’s total operating expenses; where total operating expenses exclude capital asset amortization and research and trust fund expenses and include principal repayments and sinking fund payments. The greater the portion of operations, the greater the risk. The objective is to stay below the Target.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|----------------------|---------|---------|---------|---------|---------|----------------------|
| Debt Servicing Costs | 20,425 | 24,119 | 26,320 | 27,526 | 27,201 | 6,776 33% |
| Operating Expenses | 518,232 | 525,531 | 538,508 | 531,270 | 550,016 | 31,784 6% |



INTEREST BURDEN: Similar to Debt Servicing Burden but uses interest only portion of capital financing. The objective is to stay below the Target.

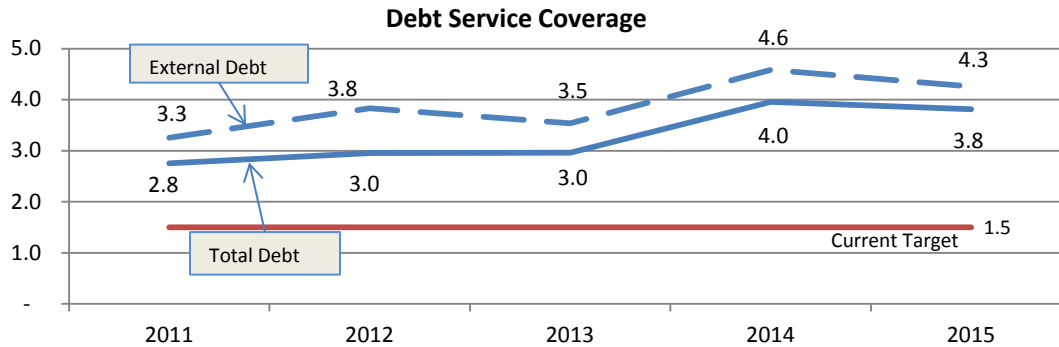
| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|--------------------|---------|---------|---------|---------|---------|----------------------|
| External Interest | 11,856 | 11,426 | 12,117 | 12,431 | 12,206 | 350 3% |
| Total Interest | 13,578 | 13,242 | 13,789 | 14,107 | 13,432 | (146) -1% |
| Operating Expenses | 518,232 | 525,531 | 538,508 | 531,270 | 550,016 | 31,784 6% |



Annual Financial Report – Supplementary Information

DEBT SERVICE COVERAGE: Expressed as adjusted net income to debt service costs. This shows the cushion in annual operating results that the University has to cover its debt servicing requirements. The objective is to stay above the Target.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|------------------------------|--------|--------|--------|---------|---------|----------------------|
| Adjusted Net Income Total | 56,244 | 71,288 | 77,944 | 108,959 | 103,640 | 47,396 84% |
| Debt Servicing Costs | 20,425 | 24,119 | 26,320 | 27,526 | 27,201 | 6,776 33% |
| Adjusted Net Income External | 54,522 | 69,472 | 76,272 | 107,283 | 102,414 | 47,892 88% |
| External Debt Service Cost | 16,736 | 18,140 | 21,576 | 23,415 | 24,050 | 7,314 44% |



DEBT PER STUDENT FTE: Compares the debt of the University to the size of the student body. This provides an indication of the magnitude of debt and can be compared across institutions. The objective is to stay below the Target.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 5 Year Change \$ & % |
|---------------------|---------|---------|---------|---------|---------|----------------------|
| External Debt | 185,060 | 204,244 | 225,156 | 235,000 | 224,456 | 39,396 21% |
| Total Debt | 224,698 | 240,748 | 266,774 | 267,378 | 256,460 | 31,762 14% |
| Total Student FTE's | 20,651 | 21,542 | 21,644 | 21,548 | 21,545 | 894 4% |

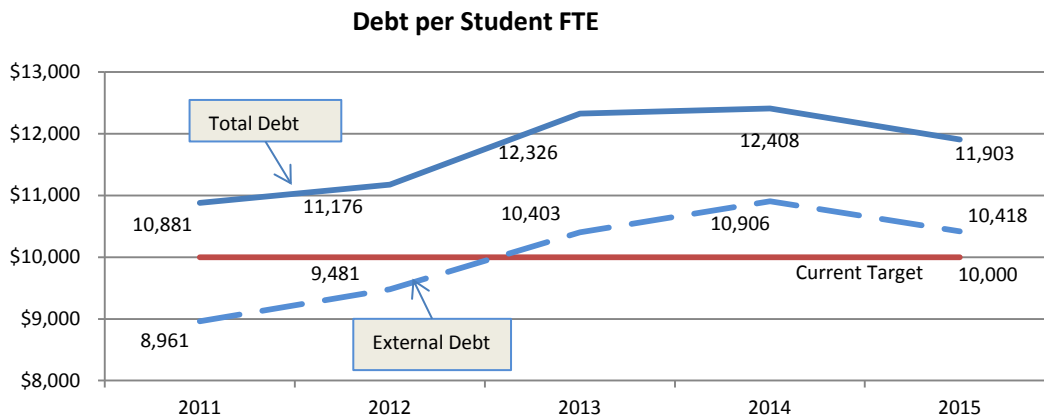
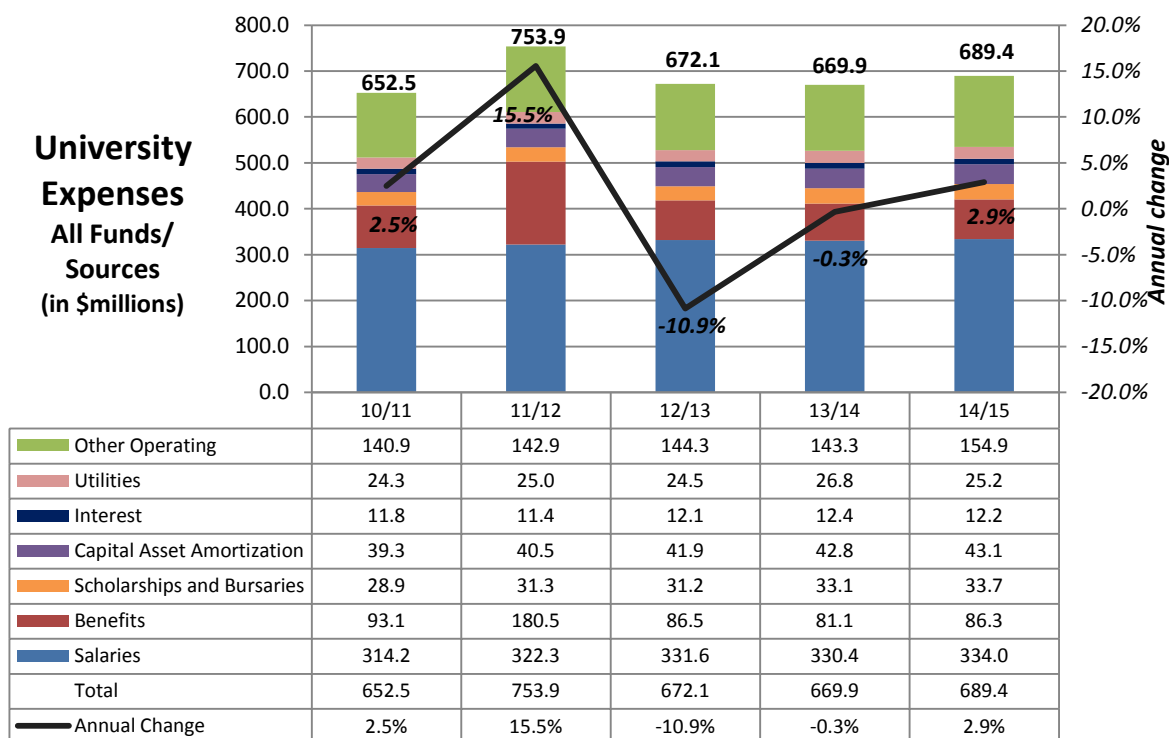
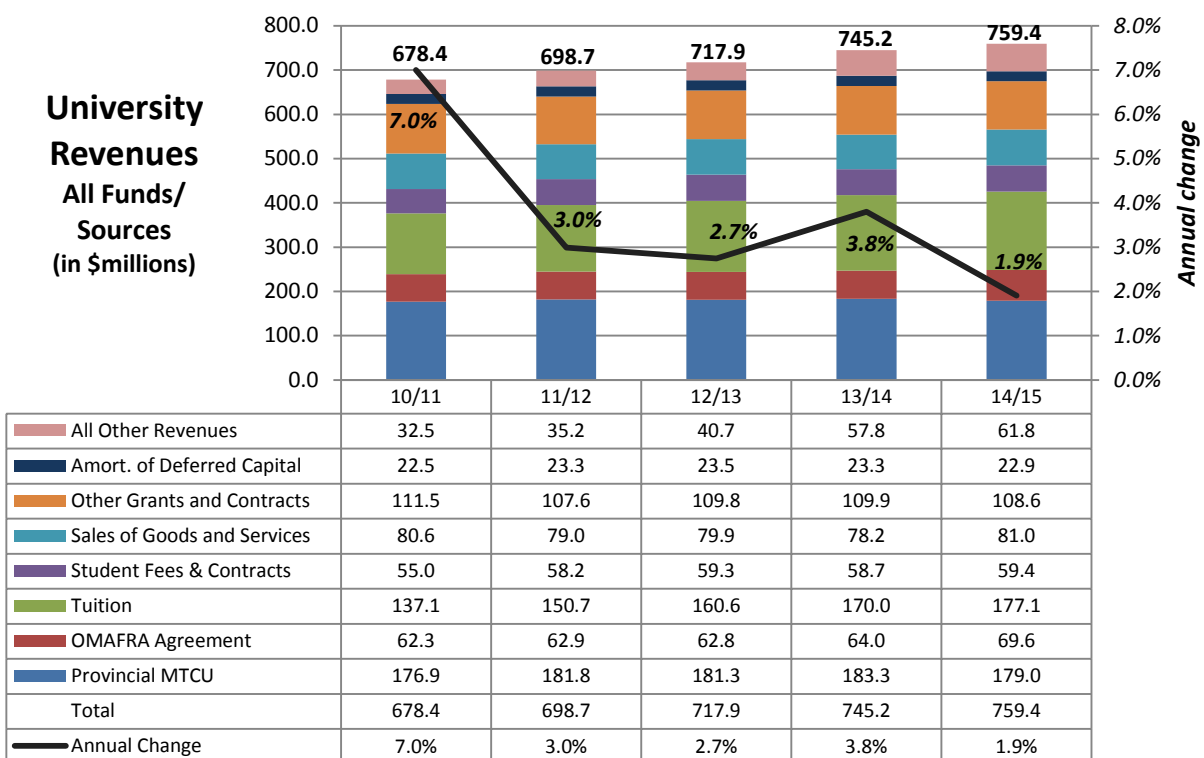


Table of Comparative Results

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|-----------|-----------|-----------|-----------|-----------|
| Enrolment FTEs (University Degree Programs) | 20,651 | 21,542 | 21,644 | 21,548 | 21,545 |
| Faculty and Staff (Budgeted Positions) | 2,944 | 2,946 | 2,951 | 2,965 | 2,933 |
| Faculty (Budgeted Positions) | 855 | 836 | 830 | 829 | 823 |
| Revenues and Expenses | | | | | |
| Total Revenues (\$M) | \$678.4 | \$698.7 | \$717.9 | \$745.2 | \$759.4 |
| Total Expenditures (\$M) | \$652.5 | \$753.9 | \$672.2 | \$669.9 | \$689.4 |
| Unrealized Gain (Loss) on Interest Rate Swaps | \$(1.1) | \$(3.5) | \$(4.4) | \$4.6 | \$(3.4) |
| Annual Surplus/(Deficit) (\$M) | \$24.7 | \$(58.7) | \$41.3 | \$79.9 | \$66.6 |
| Revenue year-over-year change | 7% | 3% | 3% | 3% | 2% |
| MTCU Operating Grants per FTE (\$) | \$8,275 | \$8,191 | \$8,127 | \$8,174 | \$8,051 |
| Revenue Mix (% of Total Revenues) | | | | | |
| Provincial MTCU Operating Grants | 26% | 26% | 25% | 25% | 23% |
| Tuition | 20% | 22% | 22% | 23% | 23% |
| Endowment and Donations | 2% | 2% | 2% | 3% | 3% |
| Expenditure year-over-year change | 2% | 3% | 0.4% | 0.1% | 2.9% |
| Expense Mix (% of Total Expenses) | | | | | |
| Salaries | 48% | 43% | 49% | 49% | 48% |
| Benefits (including EFB accounting policies) | 14% | 24% | 13% | 12% | 13% |
| Components of Net Assets | | | | | |
| Invested in Capital Assets (\$M) | \$163.0 | \$420.0 | \$420.8 | \$426.6 | \$458.8 |
| Endowed (\$M) | \$210.4 | \$218.5 | \$251.8 | \$290.0 | \$320.2 |
| Internally Restricted (\$M) | \$155.3 | \$171.8 | \$207.3 | \$262.3 | \$260.1 |
| Unrestricted Surplus (Deficit) (\$M) | \$(253.1) | \$(431.9) | \$(363.0) | \$(381.0) | \$(306.6) |
| Total Net Assets | \$275.6 | \$378.4 | \$516.9 | \$597.9 | \$732.5 |
| Capital and Capital Debt | | | | | |
| Total Debt | \$185.1 | \$204.2 | \$225.2 | \$235.0 | \$224.5 |
| Total Debt per FTE (\$) | \$8,961 | \$9,481 | \$10,403 | \$10,906 | \$10,420 |
| %Debt Service to Revenue | 2.5% | 2.6% | 3.0% | 3.2% | 3.2% |
| %Debt to Revenue | 27.3% | 29.2% | 31.4% | 31.9% | 29.6% |
| Capital Acquisitions (\$M) | \$105.9 | \$81.2 | \$70.0 | \$49.4 | \$58.7 |
| Provincial Capital Grants (\$M) | \$1.5 | \$0.7 | \$0.9 | \$2.7 | \$1.0 |
| Endowments | | | | | |
| Externally Restricted (\$M) | \$134.1 | \$138.5 | \$158.0 | \$184.6 | \$204.4 |
| Internally Restricted (\$M) | \$83.9 | \$89.7 | \$106.3 | \$124.3 | \$137.5 |
| Total Endowment Assets – Market Values | \$218.0 | \$228.2 | \$264.3 | \$308.9 | \$341.9 |
| Total Endowment per FTE (\$) | \$10,557 | \$10,594 | \$12,212 | \$14,334 | \$15,869 |
| Employee Future Benefits (EFB) | | | | | |
| Pension Plans – Surplus/(Deficit) | \$(220.7) | \$(92.1) | \$(10.5) | \$(22.4) | \$49.1 |
| Other Benefit Plans – Surplus/(Deficit) | \$(263.5) | \$(232.7) | \$(251.6) | \$(263.6) | \$(279.8) |
| Latest Valuation Date – Registered Plans | Aug-10 | Aug-10 | Aug-10 | Aug-13 | Aug-13 |
| Latest Valuation Date – Other Plans | Aug-09 | Aug-09 | Aug-09 | Aug-13 | Aug-13 |

Total Revenues and Total Expenses

The following charts present the details of trends in total University revenues and expenses as reported on the audited financial statements.



OMAFRA Contract

Fiscal 2015 was the second year of a five year funding agreement with OMAFRA (April 1, 2013 – March 31, 2018) to provide major research and service programs focused in the sectors of agriculture, food, bio-products, and rural communities. All OMAFRA Agreement revenues and expenses are recorded as a separately restricted account within the Operating Fund and must be fiscally balanced each year. All expenses are recorded in the University's financial statements as they are incurred, provincial funding is recorded as revenue as required to support the expenses and balance the overall activities. In 2015 \$71.3 million in provincial funding was received but only \$69.6 million was recognized as revenue. The balance of \$1.7 million was recorded as deferred revenue on the University's balance sheet.

The OMAFRA contract is a major component of University research providing funding for 38% of total University research and supporting 660 University employees, both faculty and staff. In addition to direct provincial funding, the province designates provincially-owned facilities (research stations and laboratories) under the contract. The province provides funding to operate, maintain and from time to time construct new contract-related facilities. For example over the past couple of years a \$25 million dairy research centre was built in Elora with both provincial and private funding. These facilities not only provide important research infrastructure for the University but generate revenues from the sale of goods (agricultural commodities), and services (laboratory testing).

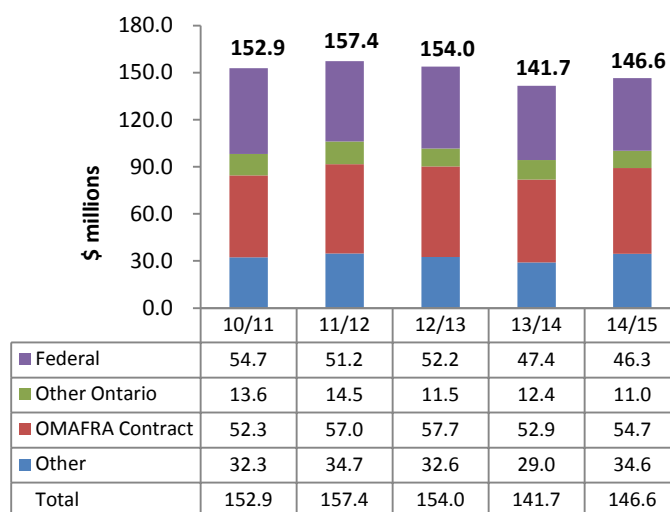
Research Funding

Major sources of research funding include federal research grants such as the federal government Tri-Councils, CFI (Canada Foundation for Innovation), the OMAFRA contract and contracts from industry for sponsored-research projects. Most research funding is restricted by external sponsors for specific purposes and under accounting policy is not recognized as revenue until spent, not as it is received.

In 2015, \$146.6 million was received and allocated to departments (\$141.7 million in 2014). The increase is due to major contributions received from two non-profit organizations; the Ontario Genomics Institute (\$4.6 million) and the Gosling Foundation (\$2.2 million).

| OMAFRA Agreement (\$Millions) | 2014 | 2015 | % Chg |
|-------------------------------|-------------|-------------|-------------|
| REVENUE | | | |
| OMAFRA Agreement | 64.0 | 69.6 | 8.7% |
| Student Fees | 0.1 | 0.1 | 0.0% |
| Sales of Goods & Services | 17.6 | 18.3 | 4.0% |
| Investment Income | 0.3 | 0.3 | 0.0% |
| Other Grants/ Contracts | 5.4 | 2.5 | -53.7% |
| Other Revenue | 1.4 | 1.4 | 0.0% |
| Total Revenue | 88.8 | 92.2 | 3.8% |
| EXPENSES | | | |
| Salaries | 33.7 | 33.9 | 0.6% |
| Benefits | 8.3 | 8.6 | 3.6% |
| Operating | 21.5 | 23.6 | 9.8% |
| Utilities | 3.3 | 3.8 | 15.2% |
| Scholarships & Bursaries | 0.7 | 1.0 | 42.9% |
| Cost Transfers | 21.3 | 21.3 | 0.0% |
| Total Expenses | 88.8 | 92.2 | 3.8% |
| REVENUE LESS EXPENSES | - | - | |

Research Funding Allocated by Major Source

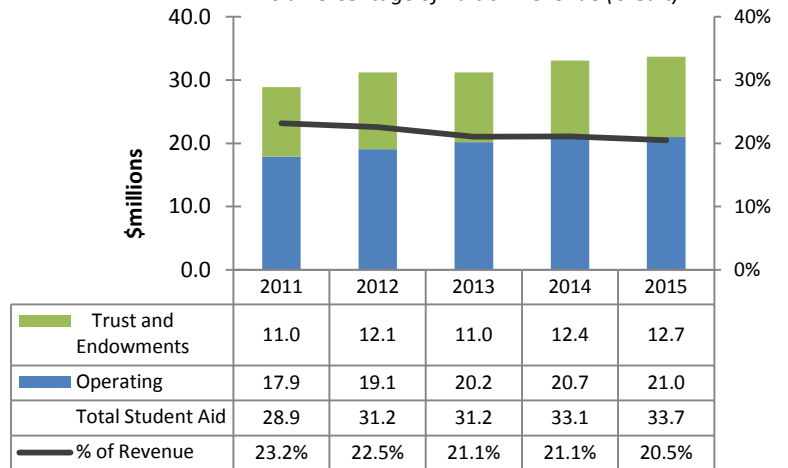


Student Aid

Total University spending on Scholarships and Bursaries in fiscal 2015 was \$33.7 million up from \$33.1 million in fiscal 2014. Scholarships and Bursaries have two main sources of funding; the Operating Fund and externally restricted funds, e.g., grants, donations and endowments.

Student aid funding is now approximately 20.5% (21.1% in 2014) of total credit tuition revenues. Of the \$33.7 million, 62% was funded from the Operating Fund and 38% from trust funds, including endowments.

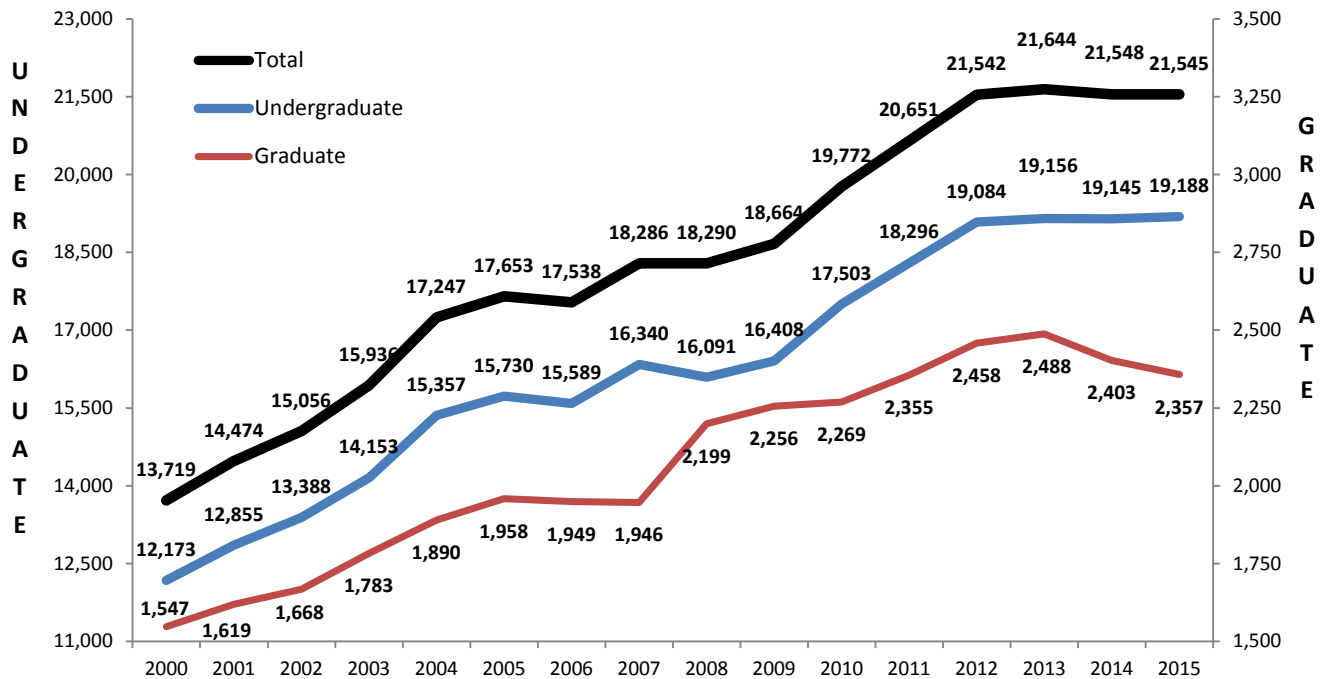
Student Aid: Scholarships & Bursaries
As a Percentage of Tuition Revenue (Credit)



Enrolment

In 2015 University enrolment as measured in full-time equivalents was basically flat compared to 2014. Undergraduate enrolment offset the decline in graduate numbers. The chart below shows the recent years of relatively flat enrolment compared to 4 years of major growth (2008 to 2012).

University Degree-Credit Enrolment (FTE's)



Statement of Operations – By Fund for Fiscal 2015 (May 1, 2014 to April 30 2015)

(in thousands of dollars)

| | Operating Fund | Capital Fund | Ancillary Enterprises | Research & Trust Fund | Endowment Fund | Total 2015 | Total 2014 |
|---|---------------------------|-------------------------|----------------------------------|--------------------------------------|---------------------------|-----------------------|-----------------------|
| REVENUE | | | | | | | |
| Ministry of Training, Colleges and Universities | 177,967 | 1,007 | 16 | - | - | 178,990 | 183,331 |
| Ministry of Agriculture, Food and Rural Affairs Agreement | 69,602 | - | - | - | - | 69,602 | 64,038 |
| Other Grants and Contracts | 7,960 | - | - | 100,409 | 224 | 108,593 | 109,879 |
| Tuition (Credit and Non-credit) | 177,127 | - | - | - | - | 177,127 | 170,037 |
| Student Fees and Contracts | 15,935 | - | 43,425 | - | - | 59,360 | 58,661 |
| Sales of Goods and Services | 48,132 | - | 32,906 | - | - | 81,038 | 78,172 |
| Investment Income | 1,772 | 1,029 | - | 15,657 | 6,730 | 25,188 | 26,998 |
| Amortization of Deferred Capital Contributions | - | 22,847 | 33 | - | - | 22,880 | 23,316 |
| Donations | 24 | - | - | 12,955 | 29 | 13,008 | 9,769 |
| University of Guelph Humber Operations | 9,925 | - | - | - | - | 9,925 | 9,064 |
| Other | 13,336 | 102 | 225 | - | - | 13,663 | 11,968 |
| | 521,780 | 24,985 | 76,605 | 129,021 | 6,983 | 759,374 | 745,233 |
| EXPENSES | | | | | | | |
| Salaries | 273,439 | - | 17,260 | 43,310 | - | 334,009 | 330,391 |
| Employee Future Benefits (EFB) | 45,492 | - | - | - | - | 45,492 | 41,496 |
| Other Employee Benefits | 31,915 | - | 3,668 | 5,205 | - | 40,788 | 39,608 |
| Capital Asset Amortization | - | 37,986 | 5,136 | - | - | 43,122 | 42,816 |
| Scholarships and Bursaries | 21,040 | - | - | 12,648 | - | 33,688 | 33,103 |
| Supplies | 23,578 | - | 2,001 | 7,445 | - | 33,024 | 31,960 |
| Professional and Externally Contracted Services | 18,745 | 90 | 1,558 | 7,180 | - | 27,573 | 26,805 |
| Utilities | 24,048 | - | 1,084 | 104 | - | 25,236 | 26,775 |
| Equipment, Repairs and Maintenance | 12,610 | 3,815 | 2,505 | 5,843 | - | 24,773 | 22,362 |
| Travel | 7,368 | - | 127 | 5,244 | - | 12,739 | 13,042 |
| Interest | - | 8,883 | 3,323 | - | - | 12,206 | 12,431 |
| Other Operating | 17,899 | - | 15,799 | 23,060 | - | 56,758 | 49,092 |
| Unrealized Loss (Gain) on Interest Rate Swaps | - | 2,397 | 1,034 | - | - | 3,431 | (4,584) |
| Interfund Transactions | 23,938 | (38,427) | 15,412 | 4,193 | (5,116) | - | - |
| | 500,072 | 14,744 | 68,907 | 114,232 | (5,116) | 692,839 | 665,297 |
| Excess (Deficiency) of Revenues over Expenses | 21,708 | 10,241 | 7,698 | 14,789 | 12,099 | 66,535 | 79,936 |
| Endowment Income & Contributions | - | - | - | - | 18,023 | 18,023 | 22,721 |
| EFB Remeasurements and Other Items | 50,034 | - | - | - | - | 50,034 | (21,673) |
| Transfers To Invested in Capital and Endowed Net Assets | - | (17,914) | (14,350) | - | (30,122) | (62,386) | (41,054) |
| Transfers (To) From Internally Restricted Net Assets | 10,550 | 5,276 | 1,167 | (14,789) | - | 2,204 | (57,907) |
| Net Increase (Decrease) in Unrestricted Net Assets | 82,292 | (2,397) | (5,485) | - | - | 74,410 | (17,977) |
| Unrestricted Net Assets, Beginning of Year | (382,738) | (3,232) | 4,992 | - | - | (380,978) | (363,001) |
| Unrestricted Net Assets, End of Year | (300,446) | (5,629) | (493) | - | - | (306,568) | (380,978) |

INDEPENDENT AUDITORS' REPORT

To the Board of Governors of the **University of Guelph**

We have audited the accompanying financial statements of the **University of Guelph**, which comprise the statement of financial position as at April 30, 2015 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 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 Guelph** as at April 30, 2015 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.

Restated comparative information

Without modifying our opinion, we draw attention to Note 20 to the financial statements, which explains that certain comparative information for the year ended April 30, 2014 has been restated. The financial statements of the **University of Guelph** for the year ended April 30, 2014 (prior to the restatement of the comparative information) were audited by another auditor who expressed an unqualified opinion on those financial statements on October 23, 2014.

Kitchener, Canada
October 16, 2015

Ernst + Young LLP

Chartered Professional Accountants
Licensed Public Accountants



UNIVERSITY OF GUELPH
STATEMENT OF FINANCIAL POSITION
AS AT APRIL 30

(in thousands of dollars)

| | <u>2015</u> | <u>2014</u> |
|---|-------------------------|-------------------------|
| <u>ASSETS</u> | | |
| Current | | |
| Cash and Cash Equivalents (Note 3) | 221,759 | 243,788 |
| Short-term Investments (Note 4) | 85,333 | 36,609 |
| Accounts Receivable (Note 15) | 22,947 | 26,337 |
| Inventories and Prepaid Expenses | 11,143 | 10,807 |
| | <u>341,182</u> | <u>317,541</u> |
| Long-term Investments (Note 4) | 383,259 | 367,217 |
| Defined Benefit Asset (Note 10) | 40,470 | 9,768 |
| Capital Assets (Note 5) | <u>1,052,451</u> | <u>1,036,900</u> |
| | <u>1,817,362</u> | <u>1,731,426</u> |
| <u>LIABILITIES</u> | | |
| Current | | |
| Accounts Payable and Accrued Liabilities (Note 6) | 48,630 | 40,809 |
| Unrealized Loss on Interest Rate Swaps (Note 7) | 15,896 | 12,465 |
| Current Portion of Long-term Debt (Note 7) | 11,172 | 10,856 |
| Current Portion of Deferred Revenue | 9,080 | 9,266 |
| Deferred Contributions (Note 8) | 125,920 | 145,549 |
| | <u>210,698</u> | <u>218,945</u> |
| Long-term Debt (Note 7) | 213,284 | 224,144 |
| Deferred Revenue | 9,469 | 9,690 |
| Deferred Capital Contributions (Note 9) | 369,190 | 375,359 |
| Defined Benefit Liability (Note 10) | 282,226 | 305,385 |
| | <u>1,084,867</u> | <u>1,133,523</u> |
| <u>NET ASSETS</u> | | |
| Invested in Capital Assets (Note 11) | 458,805 | 426,541 |
| Internally Restricted (Note 12) | 260,101 | 262,305 |
| Unrestricted Deficit | (306,568) | (380,978) |
| Endowed (Note 13) | 320,157 | 290,035 |
| | <u>732,495</u> | <u>597,903</u> |
| | <u>1,817,362</u> | <u>1,731,426</u> |

Commitments and Contingencies (Notes 4(d), 17 & 18)

(See accompanying notes)

On behalf of the Board of Governors:

Signed

Kevin Golding
Chair

Signed

Franco Vaccarino
President

**UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED APRIL 30**

(in thousands of dollars)

| | <u>2015</u> | <u>2014</u> [Restated - see Note 20] |
|---|----------------|--|
| REVENUE | | |
| Ministry of Training, Colleges and Universities | 178,990 | 183,331 |
| Ministry of Agriculture, Food and Rural Affairs Agreement | 69,602 | 64,038 |
| Other Grants and Contracts | 108,593 | 109,879 |
| Tuition | 177,127 | 170,037 |
| Student Fees and Contracts | 59,360 | 58,661 |
| Sales of Goods and Services | 81,038 | 78,172 |
| Investment Income (Note 4) | 25,188 | 26,998 |
| Amortization of Deferred Capital Contributions (Note 9) | 22,880 | 23,316 |
| Donations (Note 14) | 13,008 | 9,769 |
| University of Guelph Humber Operations (Note 15) | 9,925 | 9,064 |
| Other | 13,663 | 11,968 |
| | <u>759,374</u> | <u>745,233</u> |
| EXPENSES | | |
| Salaries | 334,009 | 330,391 |
| Employee Future Benefits (Note 10) | 45,492 | 41,496 |
| Other Employee Benefits | 40,788 | 39,608 |
| Capital Asset Amortization | 43,122 | 42,816 |
| Scholarships and Bursaries | 33,688 | 33,103 |
| Supplies | 33,024 | 31,960 |
| Professional and Externally Contracted Services | 27,573 | 26,805 |
| Utilities | 25,236 | 26,775 |
| Equipment, Repairs and Maintenance | 24,773 | 22,362 |
| Travel | 12,739 | 13,042 |
| Interest (Note 7) | 12,206 | 12,431 |
| Other Operating | 56,758 | 49,092 |
| | <u>689,408</u> | <u>669,881</u> |
| Unrealized Gain (Loss) on Interest Rate Swaps (Note 7) | <u>(3,431)</u> | <u>4,584</u> |
| Excess of Revenues over Expenses | <u>66,535</u> | <u>79,936</u> |

(See accompanying notes)

UNIVERSITY OF GUELPH
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30

(in thousands of dollars)

| | Invested in Capital Assets | Internally Restricted | Unrestricted Surplus (Deficit) | Endowed | Total |
|--|----------------------------------|--------------------------|--------------------------------------|----------------|----------------|
| 2015 | | | | | |
| Net Assets, Beginning of Year | 426,541 | 262,305 | (380,978) | 290,035 | 597,903 |
| Excess (Deficiency) of Revenues over Expenses | (20,242) | - | 86,777 | - | 66,535 |
| Net Change in Net Assets Invested in Capital Assets (Note 11) | 52,506 | - | (52,506) | - | - |
| Net Change in Internally Restricted Net Assets (Note 12) | - | (2,204) | 2,204 | - | - |
| Employee Future Benefits Remeasurements and Other Items (Note 10) | - | - | 50,034 | - | 50,034 |
| Endowment Contributions (Note 13) | - | - | - | 4,711 | 4,711 |
| Increase in Accumulated Investment Income on Externally Restricted Endowments (Note 13) | - | - | - | 13,312 | 13,312 |
| Transfer of Investment Income to Internally Restricted Endowments (Note 13) | - | - | (6,730) | 6,730 | - |
| Other Transfers to Endowments (Note 13) | - | - | (5,369) | 5,369 | - |
| Net Assets, End of Year | <u>458,805</u> | <u>260,101</u> | <u>(306,568)</u> | <u>320,157</u> | <u>732,495</u> |
| 2014 | | | | | |
| [Restated - see Note 20] | | | | | |
| Net Assets, Beginning of Year | 423,687 | 204,398 | (363,001) | 251,835 | 516,919 |
| Excess (Deficiency) of Revenues over Expenses | (19,500) | - | 99,436 | - | 79,936 |
| Net Change in Net Assets Invested in Capital Assets (Note 11) | 22,354 | - | (22,354) | - | - |
| Net Change in Internally Restricted Net Assets | - | 57,907 | (57,907) | - | - |
| Employee Future Benefits Remeasurements and Other Items (Note 10) | - | - | (21,673) | - | (21,673) |
| Endowment Contributions (Note 13) | - | - | - | 3,969 | 3,969 |
| Increase in Accumulated Investment Income on Externally Restricted Endowments (Note 13) | - | - | - | 18,752 | 18,752 |
| Transfer of Investment Income to Internally Restricted Endowments (Note 13) | - | - | (10,587) | 10,587 | - |
| Other Transfers to Endowments (Note 13) | - | - | (4,892) | 4,892 | - |
| Net Assets, End of Year | <u>426,541</u> | <u>262,305</u> | <u>(380,978)</u> | <u>290,035</u> | <u>597,903</u> |

(See accompanying notes)

UNIVERSITY OF GUELPH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30

(in thousands of dollars)

| | <u>2015</u> | <u>2014</u> |
|---|-----------------------|-------------------------------------|
| | | [Restated - see Note 20] |
| OPERATING ACTIVITIES | | |
| Excess of Revenues over Expenses | 66,535 | 79,936 |
| Add (Deduct) Non-cash Items: | | |
| Capital Asset Amortization | 43,122 | 42,816 |
| Amortization of Deferred Capital Contributions | (22,880) | (23,316) |
| Increase in Unrealized Investment Income | (10,561) | (8,804) |
| Increase (Decrease) in Unrealized Loss on Interest Rate Swaps | 3,431 | (4,584) |
| Employee Future Benefits Expense | 45,492 | 41,496 |
| Employee Future Benefits Contributions | (49,319) | (37,221) |
| Net Change in Other Non-cash Items (Note 16) | (9,161) | (6,348) |
| | <u>66,659</u> | <u>83,975</u> |
| FINANCING ACTIVITIES | | |
| Proceeds from Long-term Debt | - | 19,528 |
| Repayment of Long-term Debt | (10,544) | (9,684) |
| Deferred Capital Contributions Received During the Year | 16,115 | 16,884 |
| Endowment Contributions | 4,711 | 3,969 |
| | <u>10,282</u> | <u>30,697</u> |
| INVESTING ACTIVITIES | | |
| Net Purchase of Investments | (40,893) | (21,391) |
| Purchase of Capital Assets | (58,077) | (49,082) |
| | <u>(98,970)</u> | <u>(70,473)</u> |
| Increase (Decrease) in Cash and Cash Equivalents | (22,029) | 44,199 |
| Cash and Cash Equivalents, Beginning of Year | <u>243,788</u> | <u>199,589</u> |
| Cash and Cash Equivalents, End of Year | <u><u>221,759</u></u> | <u><u>243,788</u></u> |

(See accompanying notes)

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1. AUTHORITY AND PURPOSE

The University of Guelph (the "University") operates as a not-for-profit entity under the authority of the University of Guelph Act (1964). The University is a comprehensive, research intensive university offering a range of undergraduate and graduate programs. With the exception of academic governance, which is vested in the University's Senate, the University is governed by the Board of Governors. The University is a registered charity (#10816 1829 RR001) and is therefore exempt from income taxes under section 149 of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Part III of the Chartered Professional Accountants of Canada Handbook – Accounting which sets out generally accepted accounting principles for not-for-profit organizations in Canada ("GAAP") and includes the following significant accounting policies:

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of balances with banks and investments in money market funds that are low risk investments held for the purpose of meeting short-term cash commitments rather than for investing or other purposes, such as debt repayment. Cash and cash equivalents held for investing or other purposes are classified as investments on the Statement of Financial Position.

(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. Short-term investments are readily convertible to cash and are recorded at cost plus accrued income, which approximates fair value. Publicly traded securities are valued on the latest quoted market prices and pooled funds are valued based on reported unit values.

The values of private investments are determined based on the latest valuations provided by the external investment managers of the fund, adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements to the fund through April 30. The University believes that the carrying amount of these financial instruments is a reasonable estimate of fair value. Because private investments are not readily traded, their estimated values are subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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

Investment income, comprised of interest, dividends, realized and unrealized gains (losses), and changes in fair value of currency forward contracts, is recorded as revenue in the Statement of Operations, except for investment income earned on externally restricted endowments, for which only the amount made available for spending is recorded as revenue.

(c) Derivative Financial Instruments

The University uses currency forward contracts to manage 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. The University does not enter into derivative financial instruments for trading or speculative purposes.

Investment manager valuations are used to determine the fair value of currency forward contracts.

Bank valuations are used to determine the fair value of interest rate swaps. Changes in fair value of interest rate swaps during the year are recorded in the Statement of Operations.

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(d) Other Financial Instruments

Other financial instruments, including accounts receivable consisting primarily of trade receivables, accounts payable and long-term debt are recorded at amortized cost.

(e) Inventory Valuation

Inventories are recorded at the lower of cost and net realizable value.

(f) Joint Venture

With the approval of the Ontario Ministry of Training, Colleges and Universities, the University of Guelph and The Humber College Institute of Technology and Advanced Learning entered into a Memorandum of Understanding dated June 10, 1999, to develop and deliver joint programming as the University of Guelph-Humber (the Joint Venture). The Joint Venture is accounted for using the equity method.

(g) Capital Assets

Capital assets are recorded at cost less accumulated amortization, except for the donated assets which are recorded at appraised values. Art, rare books and other collections are recorded at a nominal value of \$1 and are not amortized. The cost of capital assets is amortized on a straight-line basis over the estimated useful lives as follows:

| | |
|-------------------------|----------------|
| Land Improvements | 10 to 60 Years |
| Buildings | 40 Years |
| Furniture and Equipment | 10 Years |
| Computer Equipment | 3 Years |
| Library Books | 5 Years |

(h) Leases Payable

The University has entered into building leases for which title to the related assets will vest in the University on the termination of the leases. The cost of these assets is reflected in capital assets and the present value of the lease commitments is reflected as a liability.

(i) Recognition of Revenue

The University accounts for contributions, which includes government grants and donations, in accordance with the deferral method.

Externally restricted contributions received for:

- Purposes other than endowment or the acquisition of capital assets are initially recorded as deferred contributions and recognized as revenue in the year in which the related expenses are incurred.
- The acquisitions of capital assets having limited life are initially recorded as deferred contributions in the period in which they are received and recognized as revenue over the useful life of the related capital assets.
- The acquisition of unlimited life assets such as land and collections are recorded as direct increases in net assets in the period in which they are received.

Endowment contributions and related investment income (loss) allocated to endowment capital preservation and growth are recorded as direct increases or decreases in net assets in the period in which they are received or earned.

Unrestricted contributions are recognized as revenue when received.

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Revenues received for the provision of goods and services are recognized in the period in which the goods or services are provided by the University. Revenues received for a future period are deferred until the goods or services are provided.

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 collected that relate to academic terms commencing after the end of the fiscal year are included in Current Portion of Deferred Revenue.

(j) Employee Future Benefits

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the defined benefit obligation net of the fair value of plan assets measured at the date of the statement of financial position in the Statement of Financial Position. 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, net change in valuation allowance, past service costs, and curtailment and settlement gains and losses are recognized as a direct increase or decrease in net assets. The liability for funded and unfunded defined benefit plans is determined using a roll-forward technique to estimate the defined benefit liability using funding assumptions from the most recent actuarial valuation report prepared at least every three years.

(k) 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 that they relate to investments, in which case they are recognized in the same manner as investment income.

(l) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, valuation allowances for receivables, accrued liabilities, valuation of derivative financial instruments, obligations related to employee future benefits and the recording of contingencies. Actual results could differ from those estimates.

3. CASH AND CASH EQUIVALENTS

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------|----------------|----------------|
| Cash | 50,037 | 62,337 |
| Money Market Funds | 164,614 | 155,635 |
| Canadian Bank Term Deposits | 7,108 | 15,519 |
| Government of Canada Treasury Bills | - | 10,297 |
| | <u>221,759</u> | <u>243,788</u> |

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4. INVESTMENTS

a) Details

| | <u>2015</u> | <u>2014</u> |
|------------------------------------|-----------------------|-----------------------|
| Short-term Investments | | |
| Restricted Cash Equivalents | 16,893 | 19,845 |
| Foreign Currency Forward Contracts | 3,008 | 1,012 |
| Government Bonds | 30,114 | - |
| Canadian Short-term Bond Fund | 23,824 | 5,017 |
| Guelph-Humber Equity (Note 15) | <u>11,494</u> | <u>10,735</u> |
| | 85,333 | 36,609 |
| Long-term Investments | | |
| Government Bonds | 41,379 | 59,360 |
| Canadian Fixed Income | 81,981 | 79,517 |
| Canadian Equities | 78,272 | 70,706 |
| U.S. Equities | 76,786 | 73,481 |
| Non-North American Equities | 71,092 | 65,376 |
| Emerging Markets Equities | 19,331 | 16,117 |
| Infrastructure Pooled Fund | <u>14,418</u> | <u>2,660</u> |
| | 383,259 | 367,217 |
| Total Investments | <u><u>468,592</u></u> | <u><u>403,826</u></u> |

b) Investment Income

| | <u>2015</u> | | | <u>2014</u> | | |
|---|----------------------|------------------|----------------------|---------------------------------|------------------|----------------------|
| | <u>Operations</u> | <u>Endowment</u> | <u>Total</u> | [Restated - see Note 20] | | |
| | <u>Operations</u> | <u>Endowment</u> | <u>Total</u> | <u>Operations</u> | <u>Endowment</u> | <u>Total</u> |
| Net Realized Investment Income | 3,965 | 16,203 | 20,168 | 4,850 | 21,295 | 26,145 |
| Net Increase in Unrealized Gains (Losses) | <u>3,470</u> | <u>17,052</u> | <u>20,522</u> | <u>394</u> | <u>20,229</u> | <u>20,623</u> |
| | 7,435 | 33,255 | 40,690 | 5,244 | 41,524 | 46,768 |
| Made Available for Spending (Note 13) | 13,213 | (13,213) | - | 12,185 | (12,185) | - |
| Internally Restricted Endowed (Note 13) | 6,730 | (6,730) | - | 10,587 | (10,587) | - |
| Externally Restricted Endowed (Note 13) | - | (13,312) | (13,312) | - | (18,752) | (18,752) |
| Net Investment Income Deferred | <u>(2,190)</u> | <u>-</u> | <u>(2,190)</u> | <u>(1,018)</u> | <u>-</u> | <u>(1,018)</u> |
| Total Investment Income | <u><u>25,188</u></u> | <u><u>-</u></u> | <u><u>25,188</u></u> | <u><u>26,998</u></u> | <u><u>-</u></u> | <u><u>26,998</u></u> |

c) Derivative Investments

The University has entered into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting volatility on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. These contracts are recorded at fair value as Short-Term Investments on the Statement of Financial Position.

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The notional and fair values of foreign currency forward contracts are as follows:

| | 2015 | | 2014 | |
|------------------------|----------------|------------|----------------|------------|
| | Notional Value | Fair Value | Notional Value | Fair Value |
| United States Dollar | 68,612 | 2,197 | 56,425 | 926 |
| Euro | 12,161 | 373 | 10,630 | 2 |
| British Pound Sterling | 6,276 | 206 | 5,483 | 23 |
| Japanese Yen | 4,278 | 134 | 3,359 | 56 |
| Other | 7,495 | 98 | 6,686 | 5 |
| | | 3,008 | | 1,012 |

d) Uncalled Commitments

As at April 30, 2015, approximately 3.8% (2014 – 0.7%) of the University's long-term investment portfolio is invested in Brookfield Infrastructure Fund. The legal terms and conditions of these investments require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2015, the University had uncalled commitments of \$8,385 (2014 - \$18,094).

5. CAPITAL ASSETS

| | 2015 | | | 2014 | | |
|---------------------------------------|-----------|--------------------------|----------------|-----------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Land | 255,660 | - | 255,660 | 255,660 | - | 255,660 |
| Land Improvements | 32,410 | 11,543 | 20,867 | 31,040 | 13,535 | 17,505 |
| Buildings | 915,386 | 253,058 | 662,328 | 882,331 | 231,287 | 651,044 |
| Furniture and Equipment | 233,942 | 153,471 | 80,471 | 255,119 | 169,998 | 85,121 |
| Construction in Progress | 26,482 | - | 26,482 | 20,490 | - | 20,490 |
| Computer Equipment | 12,979 | 11,013 | 1,966 | 13,702 | 11,264 | 2,438 |
| Library Books | 16,755 | 12,079 | 4,676 | 16,473 | 11,832 | 4,641 |
| Art, Rare Books and Other Collections | 1 | - | 1 | 1 | - | 1 |
| | 1,493,615 | 441,164 | 1,052,451 | 1,474,816 | 437,916 | 1,036,900 |

6. GOVERNMENT REMITTANCES

Accounts Payables and Accrued Liabilities include \$586 (2014 - \$75) with respect to government remittances payable.

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7. LONG-TERM DEBT

| a) Details | Interest Rate | Issue Date | Due Date | 2015 | 2014 |
|-------------------------------------|------------------|---------------|-------------|-----------------|-----------------|
| | % | | | | |
| Series A Unsecured Debenture | 6.24 | 11-Oct-02 | 10-Oct-42 | 100,000 | 100,000 |
| Banker's Acceptances | | | | | |
| Canadian Imperial Bank of Commerce | 4.96 | 1-May-06 | 2-May-16 | 758 | 1,363 |
| Toronto Dominion Bank | 4.91 | 20-Dec-07 | 20-Dec-22 | 4,153 | 4,683 |
| Toronto Dominion Bank | 4.54 | 10-Apr-08 | 10-Apr-23 | 1,599 | 1,798 |
| Toronto Dominion Bank | 3.47 | 13-Mar-09 | 13-Mar-24 | 6,003 | 6,667 |
| Royal Bank of Canada | 4.85 | 23-Mar-10 | 24-Mar-25 | 5,190 | 5,706 |
| Royal Bank of Canada | 5.02 | 1-May-10 | 1-May-25 | 6,874 | 7,541 |
| Bank of Montreal | 7.63 | 16-Oct-00 | 15-Jun-25 | 26,500 | 27,500 |
| Royal Bank of Canada | 3.84 | 3-Oct-11 | 2-Oct-26 | 28,961 | 31,458 |
| Royal Bank of Canada | 2.96 | 5-Sep-12 | 5-Sep-27 | 24,110 | 26,046 |
| Canadian Imperial Bank of Commerce | 3.73 | 1-Oct-13 | 1-Oct-28 | 17,580 | 18,879 |
| | | | | <u>121,728</u> | <u>131,641</u> |
| Leases Payable | | | | | |
| Ontario Student Housing Corp. | 6.13 | 1-Jan-69 | 1-Dec-18 | 262 | 319 |
| Canada Mortgage and Housing Corp. | 5.88 | 1-Jan-69 | 1-Dec-18 | 2,293 | 2,787 |
| | | | | <u>2,555</u> | <u>3,106</u> |
| Mortgages Payable | | | | | |
| Canada Mortgage and Housing Corp. | 5.38 | 1-Jan-67 | 1-Dec-16 | 173 | 253 |
| | | | | <u>173</u> | <u>253</u> |
| | | | | 224,456 | 235,000 |
| Current Portion | | | | <u>(11,172)</u> | <u>(10,856)</u> |
| | | | | <u>213,284</u> | <u>224,144</u> |

The interest rates disclosed above are the effective rates as a result of entering into interest rate swaps as discussed in part **c)** of this note. During the current fiscal year, the University made principal repayments in the amount of \$10,544 (2014 - \$9,684) and incurred \$12,206 (2014 - \$12,431) in interest expense from long-term debt.

The repayments required in the next five years and thereafter for the debt listed above are summarized as follows:

| | |
|-----------------|----------------|
| 2016 | 11,172 |
| 2017 | 10,505 |
| 2018 | 10,603 |
| 2019 | 11,642 |
| 2020 | 10,947 |
| 2021 and beyond | 169,587 |
| | <u>224,456</u> |

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b) Series A Unsecured Debenture

On October 11, 2002 the University issued a Series A senior unsecured debenture in the aggregate principal amount of \$100,000 at a price of \$998.69 for proceeds of \$99,869. The debenture bears interest at 6.24%, which is payable semi-annually on April 10 and October 10 with the principal amount to be repaid on October 10, 2042. The proceeds of the issue were primarily used to finance capital projects including the construction of new classrooms and a science complex.

c) Interest Rate Swaps

The University has entered into interest rate exchange (swap) contracts with the Toronto Dominion Bank, Bank of Montreal, Royal Bank of Canada, and Canadian Imperial Bank of Commerce in order to convert variable-rate borrowings to fixed rates. Under the terms of these agreements, the University pays a fixed rate and receives a variable rate on each swap's notional principal amount. The notional amounts and the net unrealized gain (loss) of these contracts outstanding at April 30th are:

| | Due Date | 2015 | | 2014 | |
|------------------------------------|-----------|-----------------|-----------------|-----------------|-----------------|
| | | Notional Amount | Gain (Loss) | Notional Amount | Gain (Loss) |
| Canadian Imperial Bank of Commerce | 2-May-16 | 750 | (21) | 1,350 | (57) |
| Toronto Dominion | 20-Dec-22 | 4,143 | (523) | 4,675 | (513) |
| Toronto Dominion | 10-Apr-23 | 1,600 | (182) | 1,800 | (169) |
| Toronto Dominion | 13-Mar-24 | 6,000 | (363) | 6,667 | (210) |
| Royal Bank of Canada | 24-Mar-25 | 5,190 | (566) | 5,710 | (452) |
| Royal Bank of Canada | 1-May-25 | 6,827 | (788) | 7,495 | (641) |
| Bank of Montreal | 15-Jun-25 | 26,500 | (7,945) | 27,438 | (7,620) |
| Royal Bank of Canada | 2-Oct-26 | 28,980 | (2,657) | 31,500 | (1,693) |
| Royal Bank of Canada | 5-Sep-27 | 24,088 | (1,270) | 26,028 | (269) |
| Canadian Imperial Bank of Commerce | 1-Oct-28 | 17,550 | (1,581) | 18,850 | (841) |
| | | | <u>(15,896)</u> | | <u>(12,465)</u> |

The net change in the unrealized loss of \$3,431 [2014 – gain of \$4,584] is recorded in the Statement of Operations.

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:

| | 2015 | 2014 |
|--|------------------|------------------|
| Balance, Beginning of Year | 145,549 | 148,370 |
| Contributions Received During the Year | 174,699 | 182,904 |
| Contributions Recognized During the Year | <u>(194,328)</u> | <u>(185,725)</u> |
| Balance, End of Year | <u>125,920</u> | <u>145,549</u> |

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9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations and grants received over a number of years restricted to 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:

| | <u>2015</u> | <u>2014</u> |
|--|-----------------|-----------------|
| Balance, Beginning of Year | 375,359 | 381,433 |
| Contributions Received During the Year | 16,711 | 17,242 |
| Amortization of Deferred Capital Contributions | <u>(22,880)</u> | <u>(23,316)</u> |
| Balance, End of Year | <u>369,190</u> | <u>375,359</u> |

10. EMPLOYEE FUTURE BENEFITS

a) Description of Plans

The University has a number of funded and unfunded programs that provide defined benefit pension and other post-employment benefits to its employees. The pension plans provide benefits that are based on years of service and best average earnings. The benefit rates are adjusted annually to reflect any increase in the Consumer Price Index (limited to 8%) that is in excess of 2%. The University's other post-employment benefit plans provide extended health care and dental coverage to retirees and their eligible dependents on a cost-sharing basis. Retiree contributions to the health and dental programs cover 30% and 50% of the costs respectively. During the year, changes were made to certain key pension plan provisions. These changes include increases to the employee contribution rates and greater early retirement penalties.

The most recent actuarial valuations were prepared as of August 1, 2013 for the University's registered pension plans and for other benefit plans. The next required funding valuation for the University's registered pension plans will be August 1, 2016. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30 of each year.

b) Defined Benefit Obligations and Plan Assets

Information about the University's defined benefit plans, in aggregate, is as follows:

| | <u>Pension Plans</u> | | <u>Other Benefit Plans</u> | | <u>Total</u> | |
|--|----------------------|-----------------|----------------------------|------------------|------------------|------------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| Defined Benefit Obligation | 1,289,921 | 1,239,813 | 279,832 | 263,631 | 1,569,753 | 1,503,444 |
| Fair Value of Plan Assets | 1,339,059 | 1,217,426 | - | - | 1,339,059 | 1,217,426 |
| Funded Status-Surplus (Deficit) | 49,138 | (22,387) | (279,832) | (263,631) | (230,694) | (286,018) |
| Valuation Allowance (VA) | <u>(11,062)</u> | <u>(9,599)</u> | <u>-</u> | <u>-</u> | <u>(11,062)</u> | <u>(9,599)</u> |
| Net Defined Benefit Asset (Liability) | <u>38,076</u> | <u>(31,986)</u> | <u>(279,832)</u> | <u>(263,631)</u> | <u>(241,756)</u> | <u>(295,617)</u> |
| Statement of Financial Position | | | | | | |
| Defined Benefit Asset | 40,470 | 9,768 | - | - | 40,470 | 9,768 |
| Defined Benefit Liability | <u>(2,394)</u> | <u>(41,754)</u> | <u>(279,832)</u> | <u>(263,631)</u> | <u>(282,226)</u> | <u>(305,385)</u> |
| Net Defined Benefit Asset (Liability) | <u>38,076</u> | <u>(31,986)</u> | <u>(279,832)</u> | <u>(263,631)</u> | <u>(241,756)</u> | <u>(295,617)</u> |

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c) Net Benefit Plan Costs

| | Pension Plans | | Other Benefit Plans | | Total | |
|--|----------------------|---------------|----------------------------|----------------|-----------------|---------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Total Service Cost | 39,991 | 35,811 | 7,046 | 7,735 | 47,037 | 43,546 |
| Less: Employee Contributions | (18,711) | (17,991) | - | - | (18,711) | (17,991) |
| Current Service Cost | 21,280 | 17,820 | 7,046 | 7,735 | 28,326 | 25,555 |
| Finance Cost | 1,276 | 743 | 15,890 | 15,198 | 17,166 | 15,941 |
| Employee Future Benefits Expense | 22,556 | 18,563 | 22,936 | 22,933 | 45,492 | 41,496 |
| Return on Plan Assets Greater than Discount Rate | (50,106) | (108,947) | - | - | (50,106) | (108,947) |
| Actuarial (Gain) Loss | 749 | 135,583 | (2,140) | (6,579) | (1,391) | 129,004 |
| Current Increase in VA | 1,463 | 2,103 | - | - | 1,463 | 2,103 |
| Effect of VA on Finance Cost | - | (487) | - | - | - | (487) |
| Past Service Costs | - | - | - | - | - | - |
| Remeasurements and Other Items | (47,894) | 28,252 | (2,140) | (6,579) | (50,034) | 21,673 |
| Net Benefit Cost (Income) | (25,338) | 46,815 | 20,796 | 16,354 | (4,542) | 63,169 |

d) Significant Assumptions

The discount rate used for determining defined benefit obligation at April 30th is 6.0% (2014 - 6.0%) and for determining benefit cost for the fiscal year is 6.0% (2014 - 6.5%).

The rate of increase in future compensation used for determining defined benefit obligation at April 30th is 4.0% (2014 - 4.0%) and for determining benefit cost for the fiscal year is 4.0% (2014 - in the range of 3.5%-4.0%).

The assumed rate for dental inflation is 4.5% (2014 - 4.5%). The assumed health care cost trend rate is 7.0% in 2015 (2014 - 7.5%) declining annually by 0.5% (2014 - 0.5%) until reaching the ultimate rate of 5.0% (2014 - 5.0%).

11. INVESTED IN CAPITAL ASSETS

| | 2015 | 2014 |
|--|-----------------|-----------------|
| Capital Assets (Net Book Value) (Note 5) | 1,052,451 | 1,036,900 |
| Less: Long-term Debt (Note 7) | (224,456) | (235,000) |
| Deferred Capital Contributions (Note 9) | (369,190) | (375,359) |
| Invested in Capital Assets | <u>458,805</u> | <u>426,541</u> |
| Changes in Invested in Capital Assets are as follows: | | |
| Capital Asset Amortization | (43,122) | (42,816) |
| Amortization of Deferred Capital Contributions | 22,880 | 23,316 |
| | <u>(20,242)</u> | <u>(19,500)</u> |
| Acquisition of Capital Assets | 58,673 | 49,440 |
| Repayment of Long-term Debt | 10,544 | 9,684 |
| Increase in Long-term Debt | - | (19,528) |
| Cash Contributions Received During the Year | (16,115) | (16,884) |
| Contributions of Depreciable Assets Received During the Year | (596) | (358) |
| | <u>52,506</u> | <u>22,354</u> |
| | <u>32,264</u> | <u>2,854</u> |

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12. INTERNALLY RESTRICTED NET ASSETS

These are restrictions of net assets designated for future purchase order commitments; capital and renovation projects committed but not completed; capital assets funded through internal borrowings; unspent organizational unit funds permitted to be carried forward at the end of each year for expenditure in the following year; and contingencies in such amounts as are deemed necessary by the Board.

| | Balance, April 30, 2014 | Transfer to (from) in 2015 | Balance, April 30, 2015 |
|-------------------------------------|----------------------------|-------------------------------|----------------------------|
| Operating Fund Reserves | | | |
| Division Reserves | 58,683 | 12,337 | 71,020 |
| Central Operating Reserves | 64,640 | (16,666) | 47,974 |
| Guelph-Humber Internally Restricted | 900 | 563 | 1,463 |
| Self Insured Losses | 1,000 | - | 1,000 |
| Employee Benefit Reserves | 80,769 | (6,784) | 73,985 |
| | <u>205,992</u> | <u>(10,550)</u> | <u>195,442</u> |
| Capital Projects Reserves | | | |
| Capital Projects and Renovations | 9,005 | (4,060) | 4,945 |
| Internally Financed Projects | (32,768) | (4,707) | (37,475) |
| Funds Held for Debt Repayment | 11,171 | 2,326 | 13,497 |
| Research and Trust | 68,108 | 14,789 | 82,897 |
| Other | 797 | (2) | 795 |
| | <u>262,305</u> | <u>(2,204)</u> | <u>260,101</u> |

13. CHANGES IN NET ASSETS – ENDOWED

The Endowment Fund consists of two major groups of investments each with different spending objectives: the Heritage Fund and the General Endowment Fund. The Heritage Fund was created in 1991 by a declaration of trust of the Board of Governors with the sole intention that the capital of the Heritage Fund will be held in perpetuity for University strategic purposes. The main sources of growth for the Heritage Fund are proceeds of University real estate sales and leases from designated properties and investment income earned on the Heritage Fund. Distributions from the Heritage Fund are made in accordance with a formula based on a five-year average of market returns after having provided for inflation protection and growth. Management of the Heritage Fund is delegated by the Board of Governors to the Board of Trustees of the Heritage Fund. The General Endowment Fund contains all remaining University endowments which consist of private and Board designated donations directed primarily for student aid.

Endowed net assets include externally restricted donations received by the University and donations designated by the Board to be endowed for specific purposes. The University endowment policy has the objective of protecting the real spending value of the endowed principal by limiting spending of investment income earned on endowments. Investment income on endowments is recorded in the Statement of Operations if it is available for spending or if the conditions of any external restrictions have been met. The balance of annual investment income is recorded as a direct change to endowed net assets.

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Details of changes in endowed net assets are as follows:

| | 2015 | | | 2014 | | |
|--|--------------------------|--------------------------|----------|--------------------------|--------------------------|----------|
| | Externally Restricted | Internally Restricted | Total | [Restated - see Note 20] | | |
| | Externally Restricted | Internally Restricted | Total | Externally Restricted | Internally Restricted | Total |
| Investment Income on Endowments | 19,193 | 14,062 | 33,255 | 22,733 | 18,791 | 41,524 |
| Less: Available for Spending | (5,881) | (7,332) | (13,213) | (3,981) | (8,204) | (12,185) |
| Increase in Accumulated Endowed Investment Income (Note 4(b)) | 13,312 | 6,730 | 20,042 | 18,752 | 10,587 | 29,339 |
| Endowment Contributions (Note 14) | 4,711 | - | 4,711 | 3,969 | - | 3,969 |
| | 18,023 | 6,730 | 24,753 | 22,721 | 10,587 | 33,308 |
| Transfers | 36 | 5,333 | 5,369 | (78,922) | 83,814 | 4,892 |
| Net Increase in Net Assets | 18,059 | 12,063 | 30,122 | (56,201) | 94,401 | 38,200 |
| Net Assets, Beginning of Year | 173,348 | 116,687 | 290,035 | 229,549 | 22,286 | 251,835 |
| Net Assets, End of Year | 191,407 | 128,750 | 320,157 | 173,348 | 116,687 | 290,035 |

14. DONATIONS

| | 2015 | 2014 |
|---|---------|-----------------------------|
| | | [Restated - see Note 20] |
| Donations Received During the Year | 20,434 | 20,876 |
| Less: | | |
| Donations Recorded as Endowment Contributions | (4,711) | (3,969) |
| Donations Recorded as Deferred Capital Contributions | (2,612) | (1,814) |
| Net Increase in Deferred Contributions from Donations | (103) | (5,324) |
| Donations Recognized as Revenue | 13,008 | 9,769 |

15. JOINT VENTURE, UNIVERSITY OF GUELPH-HUMBER

As part of its participation in the Joint Venture, the University provides certain services including academic administration, student recruitment and admissions, curriculum development, student aid and course delivery. The University advances funds equal to the cost of these services to the Joint Venture on an ongoing basis and is then reimbursed for these expenses periodically. All amounts are shared 50% by each venture. At April 30, 2015, there is a net advance of \$1,500 (2014 - \$1,974) outstanding, which is included in Accounts Receivable.

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A financial summary of the University's share of the Joint Venture for the fiscal year ended March 31st is as follows:

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|---------------|---------------|
| Financial Position: | | |
| Total Assets | 14,186 | 13,376 |
| Total Liabilities | 2,692 | 2,641 |
| Total Net Assets | <u>11,494</u> | <u>10,735</u> |
| Results of Operations: | | |
| Total Revenue | 28,748 | 26,642 |
| Total Expenses | 18,823 | 17,578 |
| Excess of Revenue over Expenses | <u>9,925</u> | <u>9,064</u> |
| Net Assets: | | |
| Unrestricted | 10,032 | 9,166 |
| Internally Restricted | 900 | 900 |
| Invested in Capital Assets | 562 | 669 |
| | <u>11,494</u> | <u>10,735</u> |
| Cash Flows: | | |
| Cash Provided by Operating Activities | 9,176 | 8,389 |
| Cash Used in Investing Activities | (10) | (29) |
| Cash Used in Financing Activities | (9,166) | (8,360) |
| Cash, Beginning of Year | - | - |
| Cash, End of Year | <u>-</u> | <u>-</u> |

16. NET CHANGE IN OTHER NON-CASH ITEMS

| | <u>2015</u> | <u>2014</u> |
|--|----------------|----------------|
| Accounts Receivable | 3,390 | 1,943 |
| Inventories and Prepaid Expenses | (336) | (5,323) |
| Accounts Payable and Accrued Liabilities | 7,821 | (1,475) |
| Deferred Revenue | (407) | 1,328 |
| Deferred Contributions | (19,629) | (2,821) |
| | <u>(9,161)</u> | <u>(6,348)</u> |

17. COMMITMENTS

Costs to complete major capital projects in progress as at April 30, 2015 are estimated to be \$72,961 (2014 - \$35,092) and will be funded by government grants, gifts and University resources.

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18. CONTINGENCIES

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, 2015, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have 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.

The University is a member in a self-insurance co-operative in association with other Canadian universities to provide property and general liability insurance coverage. Under this arrangement referred to as the Canadian Universities Reciprocal Insurance Exchange (CURIE), 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 Dec. 31, 2014, CURIE had a surplus of \$74,231 (2013 - \$71,331) of which the University's pro rata share is \$2,372 (2013 - \$2,266).

The University allows a licensee to extract aggregate from its Puslinch property. Under the terms of the license agreement, the licensee is responsible for site restoration after extraction is complete, according to an agreed upon plan of restoration. Site restoration is regularly carried out by the licensee as extraction from portions of the property is complete. While management is of the view that the licensee will meet its obligations under the agreement with respect to site restoration, should the licensee be unable to do so, the University as property owner would be responsible.

The University has a lease arrangement with the Guelph Cutten Club, whereby the University leases the assets to the Guelph Cutten Club, which is owned by the members. The University has guaranteed a loan of up to \$2,500 for the Guelph Cutten Club. As of April 30, 2015 the Guelph Cutten Club borrowed \$1,017 (2014 - \$1,150) under this guarantee.

19. 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 Endowment Investment policy at the University limits exposure to unhedged foreign currencies to 50% of the market value of foreign currency denominated assets of the Endowment Funds.

(b) Credit Risk

The University is exposed to credit risk in connection with its cash and cash equivalents, short-term investments, accounts receivable and its derivative financial instruments. The University minimizes the credit risk of cash and cash equivalents and short-term investments by depositing with only reputable financial institutions, investing in securities that meet minimum credit ratings as stipulated by the University's investment policies, and limiting exposure to any one investment. The University minimizes the credit risk of its accounts receivable by performing credit reviews where necessary.

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(c) Interest Rate Risk

The University is exposed to interest rate risk on its variable rate debt. The University minimizes this risk by entering into interest rate exchange (swap) contracts with Canadian chartered banks in order to convert variable-rate borrowings to fixed rates, thereby reducing interest rate risk associated with its outstanding 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. The University manages its liquidity risk by monitoring its operating and capital requirements. The University prepares capital and operating budgets to fulfill its obligations.

(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 currency risks) in connection with its investments in equity securities and pooled funds.

20. PRIOR PERIOD RESTATEMENT

In the current year, it was determined that income on Internally Restricted Endowments was incorrectly recorded as direct increases to endowed net assets. The prior period has been restated retrospectively to adjust the amounts of Revenue recognized in the Statement of Operations and transfers to endowed net assets in the Statement of Changes in Net Assets. The adjustment had no effect on total net asset balances. The following summarizes the effects of the adjustment for the year ended April 30, 2014:

| | <u>As Previously Reported</u> | <u>Change</u> | <u>As Restated</u> |
|----------------------------------|-----------------------------------|---------------|--------------------|
| Revenue | | | |
| Other Grants and Contracts | 109,547 | 332 | 109,879 |
| Investment Income | 16,411 | 10,587 | 26,998 |
| Donations | 9,755 | 14 | 9,769 |
| Excess of Revenues over Expenses | 69,003 | 10,933 | 79,936 |
| Transfers to Endowments | (4,546) | (10,933) | (15,479) |

21. COMPARATIVE NUMBERS

Certain comparative numbers have been reclassified to conform to the presentation adopted for the current year.