UNIVERSITY OF GUELPH

SUMMARY OF FINANCIAL RESULTS AND
AUDITED FINANCIAL STATEMENTS

For Fiscal Year Ended
April 30, 2006

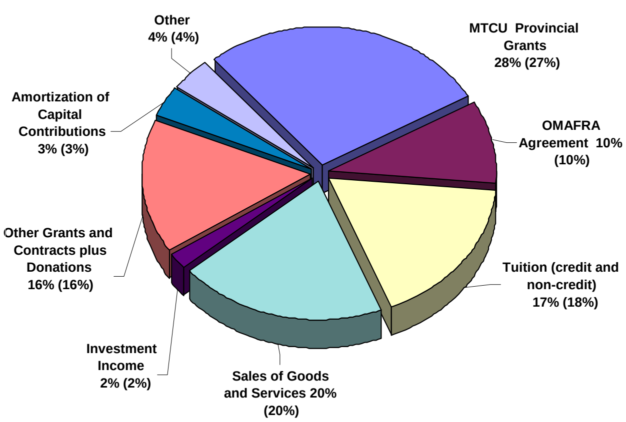
The following report summarizes University financial results for the year ended April 30, 2006 (referred to as fiscal 2006) as presented in the audited financial statements. These statements have been prepared under w specific accounting principles that are set by the Canadian Institute of Chartered Accountants (CICA) for not for profit organizations. Unless otherwise noted, all dollars are expressed in millions - "M"

The University of Guelph receives funds from a variety of sources (see Graph A). Many of these funds are restricted by the agency, organization or donor as to use and may not be used for general operating expenses. As a result, the University records its financial activities on a fund accounting basis where financial transactions are segregated according to major University activities, external restrictions on funding and the expendability of funds. (A fund is a self-balancing set of financial accounts including both balance sheet and income statement accounts.) The University currently reports on five different funds: Operating, Capital, Ancillary Enterprises, Research and Trust and Endowment. A description of each of these funds can be found on page 18.

Overall in 2006, University revenue increased by \$11.1 million or 2.2% (refer to Graph A). University Expenses totaled \$521.7 million (see Graph B), an increase of 0.9% or \$4.8 million.

Graph A

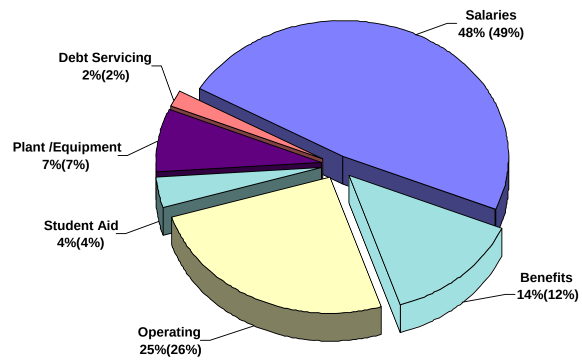
2005/2006 University Revenues - \$510.8 M (2004/2005 \$499.7 M)*



** 2004/2005 Comparatives in ( )*

Graph B

2005/2006 University Expenses - \$521.7 M (2004/2005 \$516.9 M) *



*2004/2005 Comparatives in ( )

Summary of Events

The fiscal 2006 financial statements reflect the financial impact of several significant events. The following is a summary of these events; further detailed analysis of these and other highlights of fiscal 2006 results are contained in the balance of this report.

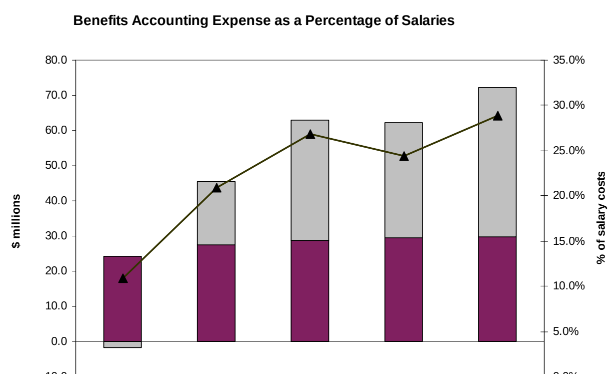
- **Capital Acquisitions:** The University initiated a number of major capital projects starting in 2002/2003 to meet its strategic planning objectives to improve existing facilities, including the reduction of deferred maintenance and to provide new space to meet the needs of additional planned enrolments. In support of these plans, the University recorded a major increase in its external debt in fiscal 2003 as the result of its issuance of a \$100-million, 40-year debenture. The proceeds of this additional debt are designated to finance major capital projects in the context of long-term strategic plans. Fiscal 2006 saw the continuation of this major capital construction program with the acquisition of \$100.7 million (\$80.4 million in fiscal 2005) in capital assets, \$38 million of which were related to the University's major "SuperBuild"[1]

[1] *"SuperBuild" refers to the provincial government's 2001 capital program designed to create new physical space for the "double cohort". Under this program, the University received \$45.0 million in 2002 toward the construction of new teaching (Rozanski Hall) and science buildings and smaller amounts in subsequent years for a number of deferred-maintenance and academic building projects.*

project. Other acquisitions reflect the combined impact of both increased research funding under federal and provincial government programs and a general increase in teaching equipment purchases and renovations funded from new enrolment revenues. By the end of fiscal 2006, the University had used $69 million of the $100-million debenture, which had been previously invested in short-term high-quality investments. Refer to page 7 for more details on the costs and revenues associated with this capital program.

- **Benefits (**14% of total expenses) increased by $9.9 million or 15.9% to $72.2 million or 28.9% of salaries (from $62.3 million or 24.4% of salaries in fiscal 2005). Refer to Graph C. Almost all ($9.6 million of the $9.9 million increase) of this increase reflects the impact of accounting[2] for the employer costs for post-employment benefits (pension and other benefits such as dental and health care coverage).

Graph C



	2002	2003	2004	2005	2006
Post-Employment	-1.8	18.0	34.2	32.8	42.4
Current Annual	24.2	27.5	28.8	29.5	29.8
% of Salaries	10.9%	20.9%	26.8%	24.4%	28.9%

This year, the calculated post-employment expense increased significantly to $42.4 million ($32.8 in 2005). This increase reflects the impact of higher liabilities for post-employment benefits, due to lower long-term interest rates (which are used in calculating future costs - the lower the interest rate the higher the present value of future costs) and higher health benefit costs especially those for drugs. The increased liability was partially offset by an improvement in the market value of pension assets used to fund liabilities. (refer to Schedule 4 - Employee Future Benefits on Page 35 for additional details.)

In recording the impact of these credits/charges over the past several years, the University has incurred an accumulated unrestricted deficit of $44.7 million. Refer to Note 11- Unrestricted Net Assets on page 27. On a cash basis, total cash payments for benefits decreased from $43.4 million in fiscal 2005 to $39.1 million in fiscal 2006. Cash contributions for post-employment liabilities decreased by $4.6 million from $13.9 million in fiscal 2005 to $9.3 million in fiscal 2006. This reflects the conservation of cash for pension contributions pending completion of the actuarial valuation at September 30, 2006 when it is anticipated significant employer contributions will be required. Cash expenses for other (statutory and negotiated) employer benefit costs (non-post employment related) increased by 1.0% or $0.3 million to $29.8 million ($29.5 million in fiscal 2005).

More Details on Major Changes in Fiscal 2006 - All Funds

REVENUES:

Revenues from all sources were $510.8 million, an increase of 2.2% or $11.1 million from fiscal 2005 ($499.7 million). Most of the increase in revenue was in the major categories of MTCU funding and the sales of goods and services. The following summarizes the major changes in revenues compared to fiscal 2005:

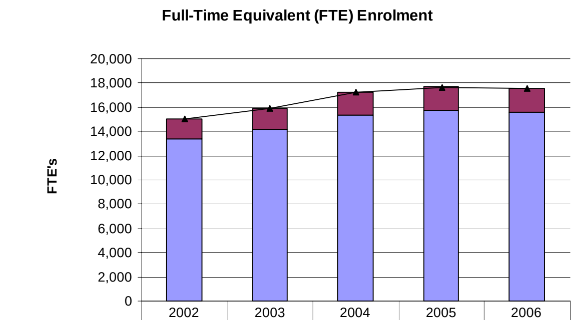
- Provincial grants from the **Ministry of Training Colleges and Universities** (28% of total revenues) increased by $6.7 million or 5.0%. In 2006 additional grants were received under MTCU's new Quality Improvement Fund. These funds were specifically identified for initiatives aimed at improving quality within the university sector. Additional grants were also received for compensatory funding as a result of the government's commitment to freeze postsecondary tuition fees. Funding previously received under the Accessibility program (funds received for accepting additional enrolments, mainly undergraduate) formed part of the basic grant envelope in fiscal 2006. No additional provincial funding was received to cover on-going operating cost increases due to inflation.

[2] *For audited statement purposes, all employer future obligations for employee post-employment benefits are accounted for as they are earned (accrued), not as they are actually paid (cash). Application of this standard can create significant changes in accounting expense from year to year depending on financial market conditions at the time the expense is calculated.*

- Provincial funding recognized under the research, teaching and laboratory contract agreement with the **Ontario Ministry of Agriculture, Food and Rural Affairs** (OMAFRA) (10% of total revenues) increased by $0.7 million or 1.4%, reflecting an increase in provincial cash spent by operating units. OMAFRA agreement activities at the University have two sources of funding: funds from the province[3] and general revenues earned at facilities supported under the agreement. The general revenues[4] are derived mainly from the sale of produce, tuition revenues and laboratory fees. Since fiscal 2000, these non-provincial sources of revenue have grown significantly, and now provide 35% of funding under the agreement (as compared to 22% in 2000). This trend is consistent with the objectives to both grow and diversify non-provincial revenues for all operations under the contract. On April 1, 2006, under a revised agreement with OMAFRA, the University assumed responsibility for the physical plant operations of the research stations and regional campuses related to the OMAFRA contract. Previously this responsibility rested with the province. Funding ($4.3 million annually of which $0.358 million was received in fiscal 2006) will be transferred with this responsibility.

- **Enrolment:** Over the course of two fiscal years, 2003 and 2004, the University absorbed the first-year impact of the "double cohort" (elimination of grade 13 in Ontario) where a new curriculum grade 12 and the final year of grade 13 students graduated together in the spring of 2003. In fiscal 2005, the University reduced its first-year intake as part of its overall strategic plan to hold total main campus enrolment in credit courses[5] to 18,000 FTE's (Full-Time Equivalents where part-time and part-year student enrolments are converted to full-time equivalents). This enrolment target was maintained for fiscal 2006 however the University experienced a small reduction (about 100 students) relative to its target resulting in a total enrolment decrease in fiscal 2006 of 0.7% to 17,538 FTEs (refer to Graph D). This reduction was not significant in terms of impact on tuition revenues or enrolment based provincial funding.

Graph D



	2002	2003	2004	2005	2006
Graduate	1,668	1,783	1,890	1,958	1,949
Undergraduate	13,388	14,153	15,357	15,730	15,589
Total	15,056	15,936	17,247	17,653	17,538

- **Tuition Revenue** (17% of total revenues) remained relatively constant ($0.1 million decrease) at $88.7 million. Tuition Revenue consists of revenues earned for both credit and non-credit courses. Non-credit courses include a wide variety of courses ranging from general continuing education to OMAFRA diploma and professional certification programs. (Non-credit courses and international student enrolments are not eligible for funding support from MTCU.) 90% or $80.1 M of the University's total tuition revenue of $88.7 M received in fiscal 2006 was earned under credit programs. Tuition revenue earned from MTCU credit-course revenues decreased by $0.1 million to $80.1 million, consistent with the slight decline in credit-course enrolment. Overall non-credit tuition remained unchanged compared to the previous year.

- **Sales of Goods and Services** (20% of total revenues) increased by $5.1 million or 5.2% which included:
  – a $3.3-million increase in the sale of produce/livestock, royalties and laboratory services under the OMAFRA agreement;
  – a $1.2-million increase in revenues from services provided to the University of Guelph-Humber;
  – a $0.6 million net increase from a large variety of activities such as user fees charged for OVC (Ontario Veterinary College) teaching hospital services, laboratory fees, services provided by the Ancillary Enterprises Fund (additional details provided on Page 9), printing and the recovery of miscellaneous service costs.

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[3] *Because of the restricted nature of provincial funding under the contract with OMAFRA, recognition of revenue from provincial funds occurs only as these funds are spent. Unused provincial funds are recorded as deferred revenue on the University's balance sheet until required.*

[4] *General revenues earned under the agreement with OMAFRA are recorded on these statements in the appropriate category such as Tuition, Sales of Goods and Services or Other Revenue.*

[5] *The University receives tuition revenues under a variety of different programs. "Credit" programs refers to graduate and undergraduate university degree programs. For most of these programs tuition rates are regulated under specific guidelines set by the provincial government and administered by the Ministry of Training, Colleges and Universities (MTCU). By following these guidelines the University receives provincial operating grant funding based on enrolment in these programs.*

EXPENSES:

University Expenses which totaled $521.7 million (see Graph B) increased 0.9% or $4.8 million from fiscal 2005 ($516.9 million).

Major components of this change over last year are:

- **Salaries** (48% of total expenses) In fiscal 2006, the University's total recorded salaries decreased by $5.4 million or 2.1%. Salaries in fiscal 2005 included $12.2 million in restructuring costs[6] associated with the University's budget plan to discontinue certain positions over the 2004/2005 and 2005/2006 fiscal years. Restructuring costs in 2006 totaled $1.9 million ($12.2 million in 2005) accounting for a $10.3 million decrease in fiscal 2005/2006 salaries expense. A partial offset to the decrease in restructuring costs was an expense increase of $4.9 million (1.9% of salary costs), reflecting the impact of negotiated salary increases for various employee groups net of position reductions.

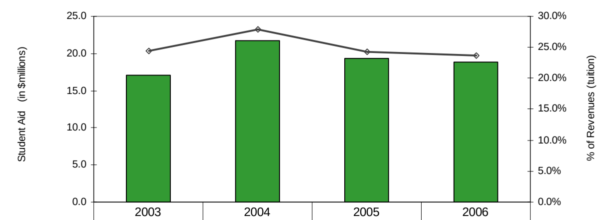
- **Benefits** (14% of total expenses) increased by $9.9 million to $72.2 million or 28.9% of salaries from $62.3 million or 24.4% of salaries in fiscal 2005. (Described on Page 2.)

- **Operating Expenses** (23% of total expenses) decreased by $1.6 million or 0.8%. Operating expenses, excluding utilities, decreased by $2.8 million or 1.7% reflecting a general decrease of purchases of supplies, services and equipment. Partially offsetting this decrease was an increase of $1.2 million in utility costs from both increased usage (new building space to be serviced) and rate increases.

- **Scholarships and Bursaries**: Total University spending on Scholarships and Bursaries decreased by $0.5 million or 2.6% to $18.9 million ($19.4 million in fiscal 2005; refer to Graph E). Scholarships and Bursaries have two main sources of funding: the Operating Fund and externally restricted funds, e.g., grants, donations and endowments. The decrease in 2006 was within the Operating Fund ($0.6 million), but was partially offset by an increase from externally restricted funds ($0.1 million). This decrease reflects the lower number of first-year entrance awards as a direct result of a slightly lower intake in the fall of 2005 (compared to the fall of 2004). Student aid funding is now approximately 23.6% (24.2% in 2005) of total credit tuition revenues. Of the $18.9 million, 43% is funded from the Operating Fund and 57% from trust (restricted) funds, including endowments.

Graph E

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



	2003	2004	2005	2006
Student Aid	17.1	21.7	19.4	18.9
% of Revenue	24.4%	27.8%	24.2%	23.6%

- **Capital Asset Amortization:** In accordance with CICA accounting requirements, the cash costs of major equipment and building acquisitions are not charged to income as they occur but over the expected useful life of the related asset. (Refer to note 2 (f) on page 19 of the financial statements for the specific policy). The charge to income is called amortization (sometimes also referred to as depreciation). In fiscal 2006 this charge increased by $2.8 million or 8% over 2005. This increase is the direct result of capital acquisitions (equipment, buildings and major renovations) over the past several years paid for mainly by external grants and debt financing. (refer to the section on the Capital Fund on page 7.)

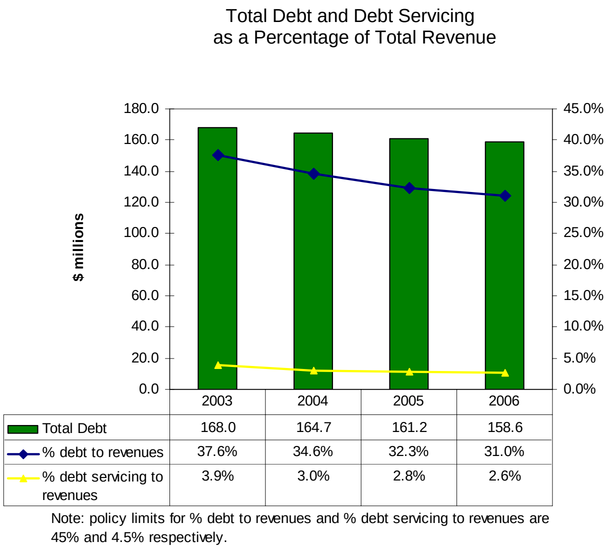
LONG-TERM DEBT AND INTEREST:

In fiscal 2003, the University issued a $100 million 6.24% unsecured debenture due in 2042. Debenture proceeds will continue to provide financing for major capital projects identified by the University as part of its strategic planning process. Projects targeted to receive these funds are Rozanski Hall, a major teaching classroom complex completed in the fall of 2003; an extension to the MacKinnon Building to provide faculty offices for the arts and social science, completed in fiscal 2006 and the new science complex to be completed in fiscal 2008. The total combined cost of these three projects is estimated at $171.0 million. Funds from the provincial SuperBuild Growth Fund program, targeted federal and provincial grants and

[6] *Restructuring costs are lump sum payments made to employees approved by the University under special incentive programs to either resign or accept early retirement. Two programs in each of 2004/2005 and 2005/2006 were approved by the board with total costs of each program not to exceed $12 million. The University received Board of Governors approval to repay all restructuring costs by 2010/2011 at a minimum rate of $2 million per year, a process that began in fiscal 2005/2006 (refer to Note 11 on Page 27 of this report for the status of that repayment plan.)*

donations will also provide a significant portion of the funding for these costs.

Graph F



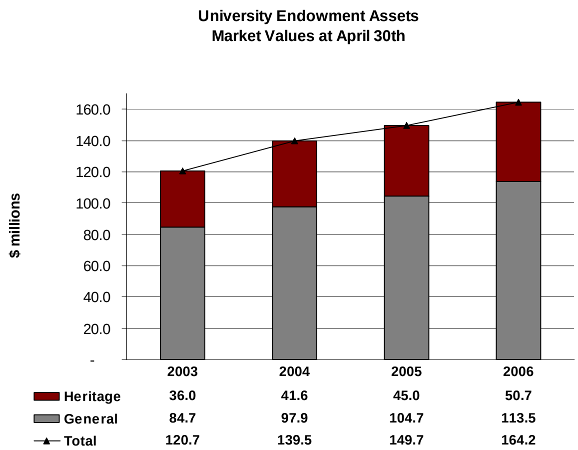
The cost of the debenture is reflected in the interest expense of $10.5 million ($10.7 million in 2005). Total external debt and debt servicing as a percentage of total University revenue are 31.0% (32.3% in 2005) and 2.6% (2.8% in 2005) respectively (refer to Graph F). The decline in total debt and both percentages from 2005 reflects both growth in total income and repayment of $2.6 million in external debt.[7] No additional debt was incurred in fiscal 2006. Both percentages are within University policy limits of 45% and 4.5%, respectively.

The Endowment Fund:

The Endowment Fund (total investments of $164.2 million, market values) is composed of restricted segregated funds provided by external benefactors or established by the Board of Governors. Under University policy, only accumulated investment income earned on these funds, after having provided for inflation protection, and in specific cases, growth, may be expended for the designated purpose. While all University endowments are pooled for investment purposes, there are two major endowment funds with different spending objectives: the Heritage Fund (investments of $50.7 million) and the General Endowment Fund (investments of $113.5 million). Refer to Graph G.

[7] *Total external debt repayment excludes internal "sinking" fund investments ($7.7 million, book value, in fiscal 2006) that have been set up to retire interest- only debt. Refer to Note 3 on Page 21"Investments Held for Debt Repayment".*

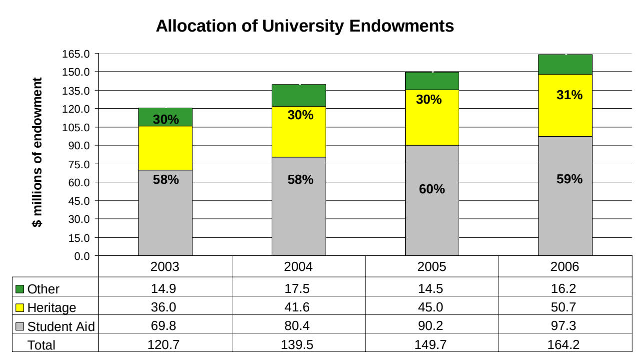
Graph G



The **Heritage Fund** was created in 1991 by a declaration of trust of the Board of Governors with the intention that the capital of the fund be held in perpetuity for University strategic purposes. The main sources of growth for the fund are proceeds of University real estate sales, leases from Board-designated properties and investment income earned on the capital of the fund. Distributions from the fund are made in accordance with a formula based on a five-year average of market returns after providing for inflation protection and growth. Management of the fund was delegated by the Board of Governors to the Board of Trustees.

The General Endowment Fund contains all remaining University endowments recorded in 800 separate accounts and consisting of external and Board-designated donations directed mainly to student aid. Approximately 59% of all University endowments are allocated to student assistance (refer to Graph H.)

Graph H

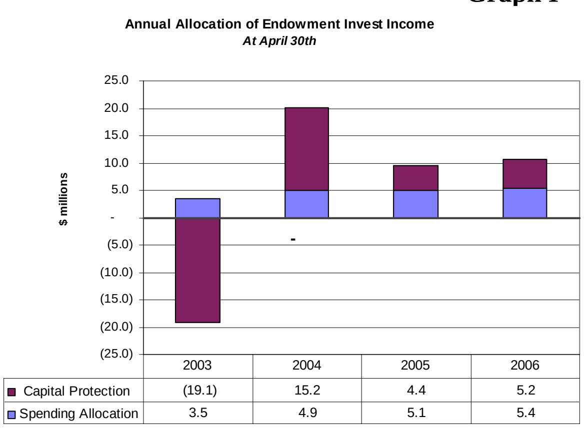


The University's **General Endowment Fund** management policy uses long-term investment assumptions in which investments are averaged over a moving four-year period in determining both investment performance and disbursement targets. The annual spending rate of the General

Endowment Fund is restricted (4.5% in fiscal 2006). The difference between actual returns and the spending rate is accumulated each year in the endowment fund to provide for capital protection, growth, and if required, to supplement annual returns to meet the annual disbursement targets.

- In total, the market value at April 30th of all endowment investments had increased by $14.5 million or 9.7% from $149.7 million in 2005 to $164.2 million in 2006. The increase in market value is the result of investment returns of 7.4% (7.2% in fiscal 2005) and net capital additions of $8.0 million less cash required for disbursements made in accordance with restrictions.
- Total 2006 investment income (realized and unrealized) from all endowments was $10.6 million, reflecting annual investment returns (compared to a $9.5 million return in 2005). In fiscal 2006, in accordance with the University's spending policy, approximately $5.4 million of the total accumulated investment earnings were made available for disbursement. The remaining investment income of $5.2 million was added to the accumulated earnings from prior years (refer to Graph I).

Graph I



- **Endowment Contributions:**

Endowment Contributions record the annual impact on the Endowment Fund of investment income and new donations. Total net endowment contributions for fiscal 2006 were $13.3 million ($12.9 million in fiscal 2005). The increase of $13.3 million recorded in fiscal 2006 consisted of:

– $1.7 million ($1.8 million in 2005) transferred to the Heritage Fund from real estate net proceeds;
– $2.1 million transferred to the Heritage Fund from the repayment of the Cruickston property mortgage
– $3.8 million ($8.9 million in 2005) in additional donations to capital received during the year;
– $5.2 million ($4.4 million in 2005) due to 2006 investment income endowed to provide for long-term capital protection in accordance with University policy;
– $0.5 million ($1.5 million in 2005) in unspent endowment investment income made available for spending in prior years that was permanently endowed in fiscal 2006.

The Capital Fund:

Financial Statement Presentation: The Capital Fund records the University's capital building, major equipment and library acquisition costs for all funds except for Ancillary Enterprises. For financial statement purposes in accordance with CICA rules, external funding received for capital projects is not recorded as capital fund revenue until the related capital asset is amortized. (Until recognized as revenues, external capital contributions are recorded as deferred contributions in the liability section of the statements.) The major expense of the Capital Fund is the amortization (or depreciation) of capital asset costs. The cost of newly acquired capital assets in the fiscal year are recorded in major asset classes; land, land improvements, buildings, computer equipment, construction in progress, equipment, and library and art collections. Expenses are charged (amortized) in the Capital Fund over the estimated useful life of each asset class (refer to Note 2(f) on page 19 for the amortization period of each asset class). In the equity section or fund balance of the Capital Fund, the account Investment in Capital Assets records the net book value less any debt or restricted contributions associated with capital assets. This represents the University's residual (net of amortization and any external debt) equity in its capital assets.

In the 2006 financial statements the University presented capital related net assets (in previous financial statements referred to as "fund balances") in more detail in order to more clearly report both funds accumulated for debt repayment and the extent to which internal sources were used for financing of capital projects in both the Capital Fund and Ancillary Enterprise Fund. Both of these items are reported on Statement 3 page 16 of this report under Internally Restricted Net Assets in the appropriate fund (Capital or Ancillary). In prior years these balances had been reported under the "Invested in Capital Asset' section of total "Net Assets".

In the fiscal 2006 financial statements**,** the net book value of capital assets increased by $64.8 million ($47.2 million in 2005), reflecting expenditures on capital and work-in-progress in several building/renovation projects of $100.7 million ($80.4 million in 2005; refer to Graph J) less capital asset amortization of $35.9 million. These acquisitions will be funded through a combination of external grant or contract funding, e.g., the Ontario government's SuperBuild Growth Fund, endowments, donations and student residence user fees.

Capital Contributions and Acquisitions: Following is a description of the major capital acquisitions and funding activity that occurred during the year. Although this activity is not apparent in the audited financial statements, it is reflected in the cash flow – additions and deletions related to capital assets.

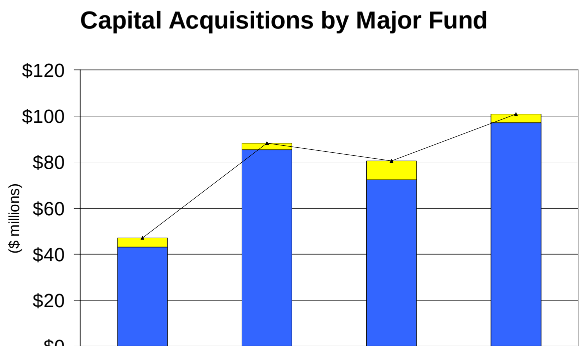
- **Capital contributions received (total $52.6 million) during the year**;
  - $1.7 million ($10.0 million in 2005) in facilities renewal grants were received from MTCU. The contribution is restricted for deferred maintenance repairs and renovations for the campus physical plant infrastructure. Given the age and usage of University buildings and past deficiencies in funding, at least $200 million in deferred maintenance costs for buildings alone have been estimated[8]. Facilities renewal funding is normally allocated to deal with the highest priority items such as safety and emergency repairs;
  - $25 million was received from OMAFRA to support the OVC redevelopment project. This is a matching component to the federal grant received in 2003;
  - $1.5 million transferred from the Heritage Fund to assist in funding the University's new integrated data and voice communication system was approved and allocated in 2005/06;
  - $1.4 million was allocated from the research infrastructure grants to support a number of ongoing capital projects, such as critical deferred maintenance, emergency repairs and the Chemical Management Centre;
  - $1.2 million ($1 million in 2005) earned on invested funds received for the Ontario Veterinary College (OVC) pre-development project. (During 2003, $37.3 million was received from the federal government for OVC redevelopment. The grant is invested according to the federal government investment guidelines, and these funds are restricted for the renovation and expansion of the veterinary hospital, laboratories and research buildings. This project is in the early stage of development, and to the end of fiscal 2006, $3.8 million had been spent);
  - $20.8 million ($5.6 million in 2005) was allocated from CFI and OIT (Ontario Innovation Trust) for the Science Complex ($11.1), the Clinical Research II project ($5.3 million), the Biodiversity Institute of Ontario ($3.1 million), the SharcNet project ($.8 million) and some smaller projects ($0.5 million);
  - Remaining capital contributions of $1.0 million are campaign donations used for the Hospitality and Tourism Management (teaching kitchen and restaurant) project, and the Learning Commons in the Library.

- **Capital acquisitions during the year ($100.7 million, refer to Graph J) include:**
  - $38.0 million for the science and teaching facilities financed with the SuperBuild provincial grant, external federal and provincial capital research grants, campaign donations and debenture financing (external debt);
  - $26.7 million in major equipment purchases and renovations funded by both departmental transfers from the Operating Fund and external research grant/contract funding transferred from the Research and Trust Fund;
  - $8.1 million for the University's critical deferred maintenance projects, which are funded from debenture financing and research infrastructure grants;
  - $6.3 million on Clinical Research II in OVC and the OVC enhanced health renovations funded by external federal and provincial capital and research grants;
  - $0.9 for the site development on a variety of properties by the Real Estate Division;
  - $3.3 million for the Biodiversity Institute of Ontario, which is funded by federal and provincial capital research grants;
  - $8.4 million for the MacKinnon addition, which is financed from the debenture;

[8] *In 2004, $13.5 million of the debenture proceeds were allocated toward critical deferred maintenance projects. In 2006, the University received approval for a five year financing plan for an additional $121.4 million to be spent on high priority deferred maintenance projects including residence buildings. These costs are to be funded from a combination of the annual provincial facilities renewal grant, residence fees and borrowing which in the absence of any provincial or federal capital funding will be serviced from the Operating Fund.*

- $1.4 million on renovations in the Animal Science building to accommodate the SharcNet equipment;
- $1.4 million on the Chemical Management Centre;
- $0.6 million on the Learning Commons in the Library which was funded by donations;
- $0.6 million on improvements to the South Residence heating system;
- A balance of $5.0 million, which consisted of a combination of smaller renovation projects, equipment purchases in ancillary operations, in-kind donations and library acquisitions.

Graph J



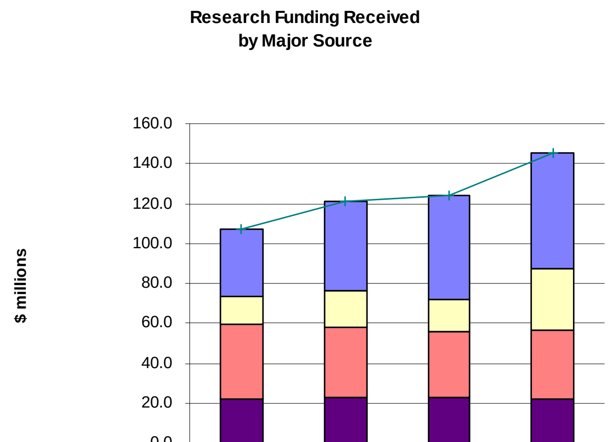
	2003	2004	2005	2006
Ancillary	4.1	2.9	8.1	3.7
Capital	43.0	85.4	72.3	97.1
Total	47.1	88.3	80.4	100.7

The Research and Trust Fund:

The Research and Trust Fund contains contributions (and related expenses) made primarily by outside organizations in the form of **restricted** research contracts and grants. Although reported as one fund on the financial statements (refer to Schedule 1 on page 30), the Research and Trust Fund consists of about 5,000 individual accounts that record both revenues and expenses for each grant, contract or special purpose. Major sources of funding include federal research grants including the Tri-Councils[9] and CFI (Canada Foundation for Innovation), provincial funding such as OIT (Ontario Innovation Trust) and contracts from industry for sponsored-research projects. In fiscal 2006, the University continued to receive significant funding of approximately $31.1 million ($16.0 million in 2005) under the CFI/OIT/ORDCF programs (ORDCF-Ontario Research and Development Challenge Fund). Research funds and related expenses restricted for capital purposes are reported under the Capital Fund.

It is important to note that this fund records only a portion of the estimated total University research funds (cash) received of $145.4 million in fiscal 2006 ($124.0 million in 2005). Refer to Graph K.

Graph K



	2003	2004	2005	2006
Federal	33.6	44.7	52.4	57.8
Other Ontario	13.6	18.7	16.1	30.9
OMAFRA	37.3	35.2	33.0	34.4
Other	22.3	22.6	22.5	22.3
Total	106.8	121.2	124.0	145.4

Of the total research funding received, $34.4 million was recorded in the Operating Fund as part of the agreement with the Ontario Ministry of Agriculture, Food and Rural Affairs (refer to the section on "revenues" on page 3). The balance of the funding ($111.0 million compared to $91.0 million in 2005) was mainly from external sponsors as restricted revenue [10] for both operating and capital purposes. Because these research receipts are mainly restricted by the contributor, they cannot be recognized as revenue until spent, in accordance with CICA rules for financial statement reporting. Application of this rule resulted in a reduction of $3.8 million to $72.9 million in Other Grants and Contracts (where non-OMAFRA research revenue is recognized on the financial statements).

[9] *Include NSERC (Natural Sciences and Engineering Research Council), SSHRC (Social Sciences and Humanities Research Council),CIHR (Canadian Institute of Health Research)*

[10] *Research funding is restricted for specific purposes mainly by external sponsors, and under accounting rules, cannot be recognized as revenue in the financial statements until the designated expenses are incurred. Therefore, while actual funding (cash) may be received in a fiscal year, it may not be recognized or recorded as revenue until future years. In the interim, the funding is recorded as a Deferred Contribution on the University's Statement of Financial Position (refer to page 20 for the accounting policy on revenue recognition.)*

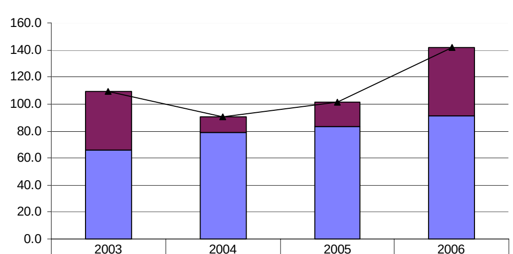
On a purely cash flow basis, research receipts, excluding the OMAFRA contract and research funds designated for capital, totaled $91.4 million (refer to Graph L). This represents a 10.2% increase from the previous year when $82.9 million in research operating grants and contract funding was received.

Expenditures in this fund increased in proportion to revenues reflecting the restricted nature of these revenues.

Additional major expenditures in this fund included scholarships and bursaries of $10.8 million ($10.7 million in fiscal 2005) funded from grants, annual donations and endowment investment income transferred to this fund from endowments for disbursement.

Graph L

Contracts and Grants Received for Capital and Research*



	2003	2004	2005	2006
Capital	43.6	11.9	18.6	50.3
Research	65.7	78.9	82.9	91.4
Total	109.4	90.8	101.5	141.7

* Note: "research" in the above chart excludes 19.6 million in capital-related research receipts recorded under "capital" and approximately $34.4 million in research funding received under the contract with OMAFRA in the Operating Fund. Total research-related funding received in fiscal 2006 was $145.4 million.

The Ancillary Enterprises Fund:

The Ancillary Enterprises Fund with revenues of $61.5 million or 12% of total University revenues (2005 revenues of $61.4 million) reports financial results of University activities not related to academic and direct-support functions reported in the Operating Fund. Ancillary units are responsible for any net operating shortfalls, capital amortization costs, interest costs and all other support costs incurred in their operations. Individual annual budgets are prepared and approved for each of these operations. Results by unit are detailed in Schedule 2 on page 32.

In comparison to 2005, **total revenues** in the Ancillary Fund increased by $0.1 million to $61.5 million. Hospitality revenues decreased in 2006 by $2.1 million ($1.3 million decrease in 2005) as a result of the decline in first-year students on campus and fewer students overall in residence. Student Housing revenues increased in 2006 by $1.1 million ($0.5 million decrease in 2005) due to the offsetting effects of fewer students in residence and increases in single-student accommodation rates. Real Estate revenues increased in 2006 by $0.9 million ($0.1 million increase in 2005) largely due to rent revenue from new tenants and the partial operation of the Phase V project in the Village by the Arboretum (VBA). Other Ancillary Fund operations reported an increase in revenue of $0.1 million.

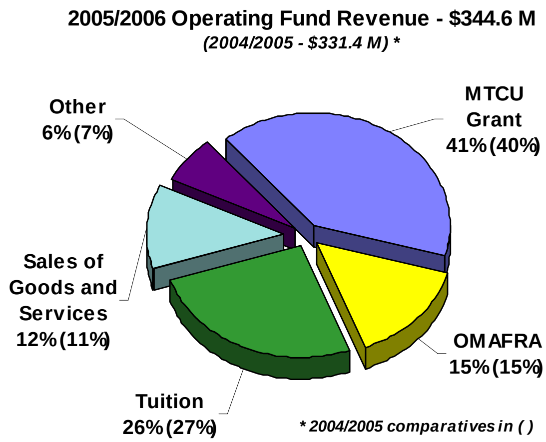
Ancillary **total expenses** decreased by 2.8% or $1.6 million over 2005. Hospitality accounted for $1.7 million of this decrease, proportionate to their decline in revenues and offset by a $0.1 increase in other Ancillary Fund expenses. Net income in all ancillary units was positive with the exception of the University Centre, which had a small loss of $0.2 million.

The Operating Fund:

The Operating Fund records the revenues and expenses for most of the University's day-to-day academic and institutional infrastructure activities. It is the largest fund, with approximately 67% of total University revenues. (refer to Schedule 1, page 30, for details of Operating Fund revenues and expenses.)

Operating Fund Revenues: (total 2006 revenues of $344.6 million, refer to Graph M) Operating grants from MTCU, funds received under the agreement with OMAFRA and tuition, both credit and non-credit revenues, provide the three largest components of revenue in this fund. Together they account for 41%, 15% and 26%, respectively, of total Operating Fund revenues. Remaining revenues of 18% are from miscellaneous fees, sales of goods and services raised by a variety of academic and service units, investment income and general external cost-recoveries.

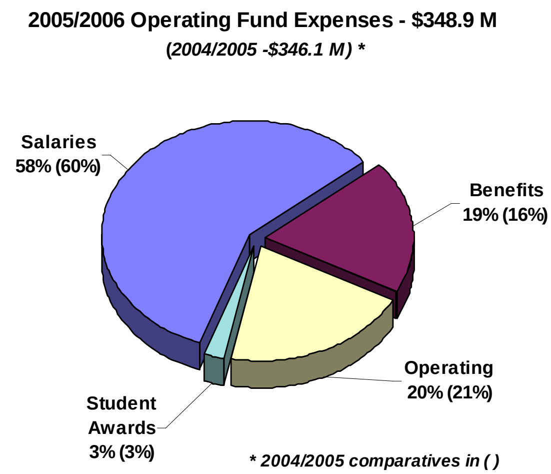
Graph M



OMAFRA Agreement: Included in the Operating Fund is OMAFRA agreement activity (2006 total expenses of $77.2 million). The OMAFRA agreement under which the University delivers research, education and laboratory testing programs, is unique in the Ontario university system. The University of Guelph and OMAFRA renewed the Agreement on April 1, 2002 for five years. However the Agreement was extended 1 year to 2008 by both OMAFRA and the University in order to permit more time for details of the renewed agreement to be completed. OMAFRA-agreement related expenses were funded from provincial transfers of $50.2 and related non-provincial revenues from the sale of goods and services and diploma and training enrolments of $27.0 million. In total, the OMAFRA contract generates 22% (15% from provincial funds and 7% earned from sales and fees from teaching, research and laboratory test operations) of total Operating Fund revenues. Under the terms of the agreement, OMAFRA revenues and expenses are treated as a separate restricted account within the Operating Fund and must be fiscally balanced. It therefore has no direct financial impact on the net income of the Operating Fund. For detailed results of the OMAFRA agreement see Schedule 3 on page 34 of the annual audited financial statements.

Operating Fund Expenses: (total of $348.9 million, refer to Graph N) Salaries and benefits compose 77.1% of total Operating Fund expenses (76.5% in fiscal 2005). Salaries decreased by 2.8% or $5.8 million in 2006. One time payments to former employees for restructuring purposes declined to $1.9 million in 2006 ($12.2 million in 2005) accounting for a $10.3 million decrease in 2006 salary expense. A partial offset to this decrease, was an increase of $4.5 million or 2.1% mainly due to negotiated settlements with employee groups. The benefit expense in 2006 increased by 18.0% or $10.1 million reflecting a significant increase in post-employment costs. Overall, post-employment benefit costs incurred by the University in 2006 accounted for 59% (53% in 2005) of total benefit costs. Benefit costs incurred by the University for non-post-employment benefits increased by 1.0%.

Graph N



Operating expenses within the Operating Fund decreased by a net $0.8 million or 1.1%. Operating expenses, excluding utilities, decreased by $2.0 million or 2.8% reflecting a general decrease in the purchase of supplies, services and equipment consistent with budgetary constraints. Partially offsetting this decrease was an increase in utility costs of $1.2 million. Specifically, fuel costs increased by $0.9 million (11%) due mainly to the increase in fuel prices and to a lesser extent, the addition of new square footage (mainly the Science Complex Phase I that continued to become fully operational during fiscal 2006). Hydro costs increased by $0.3 million (4%) due to the increase in hydro rates and the increased hydro usage in the new buildings.

Operating Fund Net Assets – Net Assets in the Operating Fund (internally restricted and unrestricted) record the fund's accumulated net financial results. In fiscal 2006, the Operating Fund experienced a $19.3 million net decrease in assets ($26.7 million in fiscal 2005). Included in this result was a transfer of $15.0 million ($12.0 million in fiscal 2005) made from the Operating Fund to the Capital and Research and Trust Funds for expenses such as new-faculty start-up funds, teaching equipment and deferred maintenance.

Internally Restricted Operating Fund Assets:
$5.6 million was transferred to the internally restricted assets (previous year's accumulated funds) to be used for the purchase of Equipment and Supplies mainly by operational units (colleges and departments). The balance of this internally restricted asset stands at $20.9 million at the end of fiscal 2006. (A portion of these funds will be carried into fiscal 2007 to assist in meeting the overall target approved in the University's 2006/2007 budget). Total internally restricted Operating Fund assets at the end of fiscal 2006 are $27.5 million. (refer to Statement 3 on page 16.)

Unrestricted Operating Fund Deficit:
After adjustments to restricted assets, the Operating Fund unrestricted deficit has increased to $56.3 million ($31.4 million deficit in 2005). The unrestricted deficit consists of the following:

- $44.7 million in unrestricted deficit represents the accounting accrual of pension and other post-employment benefits. This amount is the difference between benefit expenses funded through the University's annual budget process (which is based on long term "normal costs") and accounting expenses which can be relatively volatile depending on market conditions. [11]
- $8.5 million in unrestricted deficit relates to costs incurred from the 2004/2005 and 2005/2006 Voluntary Early Retirement Programs. These costs were approved by the Board of Governors as part of a multi-year restructuring program using incentives and voluntary departures to reduce the number of personnel in certain program areas and are not to exceed $10.0 million in accumulated deficit. Repayment of this deficit began in 2005/2006 and is to continue at a rate of no less than $2.0 million per year.
- $3.1 million in unrestricted deficit is the University's share of the net costs of the University of Guelph-Humber joint venture (refer to note 5 on page 23). This net cost is attributable to start-up costs for the new programs. The University plans to recover these costs in future years from the net revenues of Guelph-Humber programs.

MTCU Portion of the Operating Fund: The following table presents the University's net financial results for the MTCU component of the Operating Fund. This portion of the Operating Funds records the major components of the University's teaching and related infrastructure costs including most faculty and support staff positions. The budget to actual variance indicates no unusual variance patterns and that the University met its overall budget targets. "Internally Restricted Net Assets" contain funds that will be carried forward into 2006/2007 both under the University's practice of allowing departments to retain budget surpluses (and deficits) for future purposes and funds to assist in meeting the University's overall budget target in 2006/2007.

2005/2006 MTCU Operating Results
(in thousands of dollars)

	2005/06 Budget	2005/06 Actual	Variance
Revenue			
MTCU Grants	139,277	140,244	967
Tuition (Credit & Non-Credit)	85,077	85,362	285
Sales of Goods and Services	15,201	15,923	722
Investment Income	2,041	2,038	(3)
Other Revenue	13,554	16,911	3,357
Institutional Recoveries	33,392	32,640	(752)
Total Revenues and Recoveries	288,542	293,118	4,576
Expenses			
Salaries	171,982	168,317	3,665
Benefits	36,864	35,805	1,059
Operating	51,836	43,148	8,688
Utilities	19,965	21,209	(1,244)
Scholarships and Bursaries	8,747	7,239	1,508
University Contingency	3,071	1,094	1,977
Other Institutional Transfers	9,400	8,688	712
Restructuring Costs	2,596	1,182	1,414
Total Expenses	304,461	286,682	17,779
Revenue Less Expenses	(15,919)	6,436	22,355
Internally Restricted Net Assets - Beginning	15,323	15,323	0
Internally Restricted Net Assets - Ending		(20,941)	(20,941)
Net Repayment of Restructuring Costs	(596)	818	1,414
Restructuring Costs - Opening	(9,378)	(9,378)	-
Restructuring Costs - Closing	(9,974)	(8,560)	1,414

[11] *(Note: In the years immediately preceding fiscal 2003, large non-cash accounting credits were recorded mainly as the result of high market values of pension plan assets. The University followed the practice of restricting the difference between accounting and budgeted costs of post-employment benefits until such time as market conditions returned to "normal" or closer to long-term assumptions. Starting in fiscal 2003, market conditions led to the recording of large non-cash expenses rapidly consuming the restricted assets of prior years. The cumulative amount of all non-cash expenses has now surpassed prior years' non-cash cumulative appropriated credits, leading to the unrestricted deficit of $44.7-million for the accrued post-employment costs.*

Summary, all University Funds – Net Assets:

Total University income received in fiscal 2006 from all funds was $510.8 million ($499.7 million in fiscal 2005). Total expenses were $521.7 million ($516.9 million in fiscal 2005). The net of revenues less expenses was a deficit of $10.9 million ($17.1 million net deficit in 2005). In order to complete the total calculation of changes in net assets, the $9.0 million contribution to endowments was added. The resulting $1.9 million net decrease in funds was allocated in accordance with external restrictions, Board policy, and future budget and expenditure requirements.

The following notes and table summarize the distribution of changes to net assets based on fiscal 2006 financial results:

- Invested in Capital Assets – an increase of $31.3 million (2005, increase of $6.5 million) records the net change in the University's equity in its capital assets. This account increased as a result of an increase in net book value of capital assets (acquisitions greater than amortization) and the reduction in debt on the University's capital assets (which increases our equity).
- Endowed Funds – an increase of $13.3 million (2005, $19.5 million increase) records the net change in endowments due to $9.5 million in new donations, contributions and capitalized interest, plus $3.8 million in net proceeds from real estate sales. (Note: The Endowed Assets of $150.3 million is that portion of endowed investments of $164.4 million designated for initial donated capital, plus accumulated investment earnings allocated for inflation protection and growth. The balance of investments have been either designated for spending in accordance with Board policies or have been advanced to the endowment fund for investment purposes only.
- Internally Restricted Assets – records net funds committed or used for specific purposes such as temporarily financing capital projects, outstanding purchase commitments, departmental funds, research, capital replacement expenses and stabilization funds (refer to Statement 3 on page 16). In total, the University's internally restricted net assets decreased by $24.2 million (2005, increase of $5.3 million). This decrease was mainly the result of the more detailed reporting of internally financed projects and investments held for debt repayment which had previously been reported under "Invested in Capital Assets" category.
- Unrestricted Surplus (Deficit) – reports the accumulated net income or deficit of University operations after internal restrictions on assets under University policy. In total, the University's unrestricted assets decreased by $22.3 million. The Operating Fund deficit accounted for $24.9 million of this decrease, consisting of a $26.6 million deficit from the accounting accrual (non-cash expense) of post-employment benefits, a reduction in the deficit of $0.8 million from employee restructuring programs, and a reduction in the deficit of $0.9 million from the new University of Guelph-Humber program. In addition, unrestricted assets increased $2.6 million from the combined ancillary unit operations.

The following table summarizes total University financial results for the fiscal year ended April 30, 2006:

2005/2006 UNIVERSITY RESULTS
Summary of All Funds
($millions)

	Opening Assets (Deficit)	**2005/ 2006 Results**	**Closing Assets (Deficit)**
Total University Revenues		510.8	
Total University Expenses		521.7	
Revenues Less Expenses		(10.9)	
Add: Endowment Contributions: *recorded as a direct increase(decrease) in Fund Balance*.		9.0	
Equals: Increase (decrease) in Net Assets		(1.9)	
UNIVERSITY NET ASSETS:			
Invested In Capital Assets	70.1	31.3	101.4
Endowed Funds	137.0	13.3	150.3
Internally Restricted (all funds)	64.5	(24.2)	40.3
Unrestricted - Ancillaries	4.2	2.6	6.8
Unrestricted - Operating Fund	(31.4)	(24.9)	(56.3)
Total Net Assets	244.4	(1.9)	242.5

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June 30, 2006

Auditors' Report

To the Governors of the
University of Guelph

We have audited the statement of financial position of the **University of Guelph** as at April 30, 2006 and the statements of operations and changes in net assets (internally restricted, unrestricted surplus, endowed, and invested in capital assets), changes in internally restricted net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the University of Guelph. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University of Guelph as at April 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Statement 1

UNIVERSITY OF GUELPH
STATEMENT OF FINANCIAL POSITION
AS AT APRIL 30, 2006
(in thousands of dollars)

	2006	2005
ASSETS		
Current		
Cash and Short Term Investments	72,191	50,867
Accounts Receivable	20,309	21,950
Inventories	3,094	3,191
Mortgage Receivable		2,000
Prepaid Expenses	1,281	1,608
	96,875	79,616
Long-term		
Deferred Pension Costs (Schedule 4)	40,275	55,960
Real Estate Projects in Progress	293	741
Long Term Receivables	263	288
Deferred Charge (Note 15)	840	863
Investments (Note 3)	277,598	262,617
	319,269	320,469
Capital Assets (Note 6)	521,444	456,624
	937,588	**856,709**
LIABILITIES		
Current		
Accounts Payable and Accrued Charges	53,375	44,325
Current Portion of Long-term Debt (Note 7)	5,527	2,572
Current Portion of Deferred Revenue and Contributions (Note 8)	13,935	12,073
	72,837	58,970
Employee Future Benefits (Schedule 4)	70,306	53,524
Long-term Debt (Note 7)	153,080	158,625
Deferred Revenue and Contributions (Note 8)	137,379	114,060
Deferred Capital Contributions (Note 9)	261,437	227,043
	695,039	**612,222**
NET ASSETS		
Invested in Capital Assets (Note 10)	101,400	70,100
Endowed (Note 12)	150,347	137,098
Internally Restricted (Statement 3)	40,326	64,505
Unrestricted Surplus (Deficit) (Note 11)	(49,524)	(27,216)
	242,549	**244,487**
	937,588	**856,709**

D. Derry Chair

A. Summerlee President

Statement 2

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2006

(in thousands of dollars)

	2006	2005
REVENUE		
Ministry of Training, Colleges and Universities	141,733	134,983
Ministry of Agriculture, Food and Rural Affairs (Schedule 3)	50,226	49,541
Tuition (Credit and Non-Credit)	88,658	88,805
Donations (Note 14)	7,367	4,304
Sales of Goods and Services	102,395	97,326
Investment Income (Note 4)	9,638	11,654
Other Grants and Contracts	72,942	76,679
Amortization of Deferred Capital Contributions (Note 9)	18,670	16,977
Other	19,160	19,470
	510,789	499,739
EXPENSES		
Salaries	250,042	255,422
Benefits	72,239	62,329
Travel	12,559	12,119
Operating	118,154	119,775
Minor Renovations and Repairs	3,335	3,994
Interest	10,523	10,686
Scholarships and Bursaries	18,912	19,425
Capital Asset Amortization	35,930	33,143
	521,694	516,893
Revenue Less Expenses	(10,905)	(17,154)
Endowment Contributions (Note 12)	8,967	13,276
Net Increase (Decrease) in Net Assets	(1,938)	(3,878)
Net Assets, Beginning of Year	244,487	248,365
Net Assets, End of Year	242,549	244,487

Statement 3

UNIVERSITY OF GUELPH
STATEMENT OF CHANGES IN INTERNALLY RESTRICTED NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2006

(in thousands of dollars)

	Balance, Beginning of Year	Transfer To (From) Internally Restricted	Balance, End of Year
OPERATING FUND			
Equipment and Supplies	15,323	5,618	20,941
Self Insured Losses	550		550
Stabilization Fund	6,000		6,000
	21,873	5,618	27,491
CAPITAL FUND			
Capital Projects and Renovations	4,045	2,843	6,888
Minor Renovations	2,136	126	2,262
Sinking Fund	504	942	1,446
Internally Financed Projects		(12,723)	(12,723)
	6,685	(8,812)	(2,127)
ANCILLARY ENTERPRISES			
Real Estate Division	2,118	(2,065)	53
Real Estate Division Internally Financed Projects		(2,643)	(2,643)
Student Housing Services	500		500
Student Housing Sinking Fund	5,862	428	6,290
Student Housing Internally Financed Projects		(14,869)	(14,869)
Hospitality Services	209	(209)	
Hospitality Services Internally Financed Projects		(3,231)	(3,231)
University Centre	210	12	222
	8,899	(22,577)	(13,678)
RESEARCH AND TRUST FUND			
Research and Trust	27,048	1,592	28,640
TOTAL	64,505	(24,179)	40,326

Statement 4

UNIVERSITY OF GUELPH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 2006

(in thousands of dollars)

	2006	2005
OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets (Statement 2)	(1,938)	(3,878)
Add (Deduct) Non-Cash Items:		
Capital Asset Amortization (Statement 2)	35,930	33,143
Amortization of Deferred Capital Contributions (Statement 2)	(18,670)	(16,977)
Unrealized (Gain) Loss on Investments	(7,561)	(8,612)
(Increase) Decrease in Long Term Receivables	25	24
Decrease in Mortgage receivable	2,000	
(Increase) Decrease in Deferred Pension Costs	15,685	2,928
Increase in Employee Future Benefits	16,782	15,869
(Increase) Decrease in Non-Cash Working Capital	11,563	(1,440)
	53,816	21,057
FINANCING ACTIVITIES		
Decrease in Deferred Charges	23	24
Repayment of Long-term Debt	(2,590)	(3,467)
Deferred Capital Contributions Received During the Year	53,064	23,555
Increase in Deferred Contributions	25,181	8,003
	75,678	28,115
INVESTING ACTIVITIES		
(Acquisition) Disposal of Investments	(7,420)	33,216
(Acquisition) Disposal of Capital Assets	(100,750)	(80,346)
	(108,170)	(47,130)
Change in Cash and Short Term Investments	21,324	2,042
CASH AND SHORT TERM INVESTMENTS, BEGINNING OF THE YEAR	50,867	48,825
CASH AND SHORT TERM INVESTMENTS, END OF THE YEAR (Statement 1)	72,191	50,867

1. AUTHORITY AND PURPOSE

The University of Guelph 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 AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with generally accepted accounting principles, applied consistently within the framework of the accounting policies summarized below:

(a) Fund Accounting

The accounts of the University are maintained in accordance with the principles of fund accounting in order to observe the limitations and restrictions placed on the use of available resources. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into separate funds in accordance with specified activities or objectives. For financial reporting purposes, the University has combined funds with similar characteristics into five major fund groups:

i. The Operating Fund presents the academic, administrative and other operating activities of the University.

ii. The Capital Fund presents the funds received and expended on property, plant and equipment except capital expenditures related to ancillary operations.

iii. The Ancillary Enterprises Fund presents the operations of services carried on by the University that are supportive of but not directly related to the University's primary functions of teaching and research. Any deficits incurred are recoverable from each ancillary's future operations. The Ancillary Enterprises Fund includes the following:

Hospitality Services
Parking Services
Real Estate Division
Student Housing Services
University Centre

iv. The Research and Trust Fund includes those funds provided by benefactors and external contracts, the expenditure of which is restricted to a specific purpose. Also included is that portion of investment income on endowments which has been made available for expenses under University Policy.

v. The Endowment Fund records donations provided by benefactors or funds designated by the Board, which are restricted as to purpose and expendability. Only the accumulated investment income earned on these funds, after having provided for inflation protection and, in specific cases, growth may be expended for the designated purpose. The endowment capital remains intact. Endowment earnings available for expenditure are recorded in the Research and Trust Fund.

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 Fund will be held in perpetuity for University strategic purposes. The main sources of growth for the Fund are proceeds of University real estate sales and leases from designated properties and investment income earned on the capital of the Fund.

Distributions from the 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 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.

(b) Investments

The University reports its investments at market value with the exception of the capital fund and ancillary enterprises investments which are recorded at book value whereby the investments are initially recorded at cost and the earnings from such investments are recognized only to the extent received or receivable.

(c) Related Entity

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). Under the Joint Venture, the University is represented on the Executive Committee of the Joint Venture. The Joint Venture has not been consolidated in the University financial statements, however the University recognizes 50% of the total net operating results in the Statement of Operations and Changes in Net Assets of the Joint Venture.

(d) Financial Instruments

Accounts receivable are recorded at estimated net realizable value, which approximates fair value. Accounts payable and long-term debt are recorded at their cost amounts, which approximates fair value.

The University is party to certain derivative financial instruments, principally interest rate swap contracts and foreign exchange contracts. These instruments are not recognized in the consolidated financial statements on inception of the contract. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward foreign exchange contracts are recognized when they mature. The carrying amounts of derivative financial instruments, which are comprised of accrued gains and losses not yet realized, are not included in the consolidated financial statements.

(e) Inventory Valuation

Inventories are recorded at the lower of cost and market.

(f) Capital Assets

Capital assets are recorded at cost less accumulated amortization, except for the donated assets which are recorded at appraised values with the exception of art, rare books and artifacts. These are recorded at a nominal value of $1,000 and are not amortized.

The cost of capital assets is amortized on a straight-line basis over the estimated useful life as follows:

Land Improvements	10 to 60 Years
Buildings	40 Years
Furniture and Equipment	10 Years
Library Acquisitions	5 Years
Computer Equipment	3 Years

(g) Leases Payable

The University has entered into certain equipment and 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.

(h) 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.

(i) Recognition of Revenue

The University accounts for restricted contributions in accordance with the deferral method.

Externally restricted contributions received for:

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

Endowment contributions and related investment income or loss allocated to endowment capital preservation and growth are recognized 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.

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.

(j) Employee Future Benefits

The University maintains three defined benefit pension plans for its employees: Professional Plan, Retirement Plan and Non-Professional Plan. Pension plan assets, liabilities and changes in net assets are reported in the respective financial statements of these plans. The assets of the plans are held by an independent custodian and are not recorded in the accounts of the University.

Additionally, the University provides extended health care and dental benefits to retirees and their eligible dependents on a cost-sharing basis.

The cost of the pension and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management’s best estimate of expected plan investment performance, salary escalation, retirement ages of employees and other actuarial factors. Future plan obligations are discounted using current market interest rates.

As allowed under generally accepted accounting principles, the University has exercised a three-month accelerated measurement date for financial reporting purposes. Accordingly, January 31 of each year is the measurement date used for determining the benefit obligation and value of plan assets.

(in thousands of dollars)

For the purpose of calculating the expected return of plan assets, the assets are valued at fair value. Actuarial gains (losses) arise from actual experience differing from expected or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees (or, if applicable, the average remaining life expectancy of the former employees). Past service costs arising from plan amendments are amortized over the average remaining service period of employees active at the date of amendment.

On May 1, 2000, the University adopted the new accounting standard on employee future benefits using the prospective application method. The University is amortizing the resulting transitional asset/obligation over the average remaining service period of employees expected to receive benefits under the benefit plans as of May 1, 2000. (refer to Schedule 4)

(k) Real Estate Projects

The Real Estate Division is included in the ancillary enterprises fund. The Real Estate Division was established to develop certain real estate properties owned by the University and designated as Heritage Fund properties.

Real Estate projects in progress are carried at the lower of total cost and estimated net realizable value.

Costs, including capitalized interest (2006 $2; 2005 $18) of projects not yet completed are deferred and recorded as “Real Estate Projects in Progress” on the Statement of Financial Position. It is anticipated that these project costs will be recovered from future Real Estate Division revenues.

3. INVESTMENTS

	Book Value		Market Value	
	2006	**2005**	**2006**	**2005**
Short Term Notes and Bonds	95,681	97,718	94,380	98,019
Investments Held for Debt Repayment	7,737	6,365	8,369	7,317
Research & Trust Fund				
OMAFRA Post Retirement	2,255	2,277	4,552	4,019
OMAFRA Early Retirement	2,685	2,715	5,430	4,802
Total Research & Trust Fund	4,940	4,992	9,982	8,821
General and Heritage Endowment Funds				
Cash and Short Term Notes	3,104	13,508	3,104	13,508
Canadian Equities	26,743	24,670	47,420	38,053
Canadian Pooled Equity	2,710	2,016	3,479	2,479
Canadian Fixed Income	37,332	35,481	37,502	37,291
Foreign Equities	55,722	50,393	49,705	46,527
Foreign Pooled Equity	18,534	10,585	22,352	11,855
Foreign Fixed Income	645		636	
	144,790	136,653	164,198	149,713
Total Investments	253,148	245,728	276,929	263,870

Investment values as reported on the Statement of Financial Position, are as follows:

Investments	**2006**	**2005**
Short Term Notes and Bonds (Book)	95,681	97,718
Investments Held for Debt Repayment (Book)	7,737	6,365
Research & Trust Fund (Market)	9,982	8,821
General and Heritage Endowment Funds (Market)	164,198	149,713
	277,598	262,617

(in thousands of dollars)

3. INVESTMENTS, continued

Pooled investments held by the General and Heritage Endowment Funds refer to the value of units held in externally managed investment funds specializing in equities, fixed income and international investments.

In April 1997, as part of the enhanced partnership agreement with OMAFRA, the University received funds which may only be used to cover the post retirement and early retirement benefit costs related to past service for former Ministry employees, now employed by the University. The OMAFRA Post Retirement and the OMAFRA Early Retirement Funds are invested in a diversified pooled fund of Canadian equities, bonds, foreign equities and cash investments.

The assets of the General and Heritage Endowment Funds have been pooled for investment purposes. Each fund's interest in the pooled investments is calculated based on the units held by each fund in the investment pool using market values. The respective values of the assets of the General and Heritage Endowment Funds, based on the number of units held by each fund, are as follows:

	Book Value		Market Value	
	2006	**2005**	**2006**	**2005**
General Endowment	101,031	96,643	113,503	104,747
Heritage Fund	43,759	40,010	50,695	44,966
	144,790	136,653	164,198	149,713

4. INVESTMENT INCOME

Investment income is earned from operations and endowments. The income from endowments is recorded in operations as the income becomes available for expenditure in accordance with the University's endowment spending policy.

Investment Income	**Operations**	**Endowment**	**Total 2006**	**Total 2005**
Net Realized Investment Income	5,919	4,308	10,227	6,893
Increase in Unrealized Investment Income	404	6,348	6,752	8,528
Total Investment Income	6,323	10,656	16,979	15,421
Increase in Accumulated Endowed Investment Income		(5,218)	(5,218)	(4,394)
Investment Income Available for Expenditure	5,438	(5,438)	-	-
Net (Increase) Decrease in Deferred Contributions	(2,123)		(2,123)	627
Total	9,638		9,638	11,654

(in thousands of dollars)

5. JOINT VENTURE, UNIVERSITY OF GUELPH-HUMBER

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). Under the Joint Venture, the University is represented on the Executive Committee of the Joint Venture.

As part of its participation in the Joint Venture, the University also provides certain services including academic administration, student recruitment and admissions, curriculum development and student aid and course delivery. The University has advanced funds equal to the cost of these services to the Joint Venture. At April 30, 2006, there is a total advance of $4,284 (2005 $5,751) representing the net cumulative amount of all services provided by the University, relating to the Joint Venture, since the inception of the program. The University expects to continue collecting on these advanced funds as the Joint Venture recovers its cumulative deficit.

The Joint Venture has not been consolidated in the University financial statements however the University recognized 50% of the total net deficit of the Joint Venture as a cost. Separately audited financial statements are prepared for the Joint Venture (year-ended March 31, 2006). The total cumulative deficit recorded as a cost to the University is $3,062 (2005 $3,982). The University expects to recover this cost from future Joint Venture net revenues.

6. CAPITAL ASSETS

a) Details

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	8,761		8,761	8,241
Land improvements	24,296	8,449	15,847	15,581
Buildings	513,704	193,274	320,430	288,918
Furniture and equipment	191,466	104,858	86,608	82,503
Construction in progress	72,663		72,663	44,355
Computer equipment	41,695	28,598	13,097	13,076
Library and art collection	25,839	21,801	4,038	3,950
	878,424	356,980	521,444	456,624

b) Change in Net Book Value

	2006	2005
Balance, beginning	456,624	409,421
Purchase of capital assets	100,750	80,346
Less: Amortization of capital assets	(35,930)	(33,143)
Balance, ending	521,444	456,624

c) Insured Values

	2006 Net Book Value	2006 Insured Value	2005 Net Book Value	2005 Insured Value
Buildings	320,430	1,095,550	288,918	1,044,000
Furniture, equipment and library books	103,742	837,966	99,529	826,597
Art and artifacts collection	1		1	11,729

(in thousands of dollars)

7. a) LONG-TERM DEBT

	Interest Rate %	Issue Date	Due Date	2006 Total	2005 Total
Series A Unsecured Debenture	6.24	11-Oct-02	10-Oct-42	100,000	100,000
Banker's Acceptance					
Canadian Imperial Bank of Commerce	7.88	1-May-96	1-May-06	3,539	4,221
Canadian Imperial Bank of Commerce	5.89	6-Jul-98	6-Jul-07	1,372	2,404
Bank of Montreal	7.01	16-Oct-00	16-Jun-25	32,100	32,600
				37,011	39,225
Leases payable					
Ontario Student Housing Corp.	6.13	1-Jan-69	1-Dec-18	665	697
Canada Mortgage and Housing Corp.	5.88	1-Jan-69	1-Dec-18	5,865	6,159
				6,530	6,856
Mortgages payable					
Canada Mortgage and Housing Corp.	5.38	1-Jan-67	1-Dec-16	761	811
Ontario Housing Corp.(interest only)	10.36	1-Oct-90	1-Apr-10	1,225	1,225
Ontario Housing Corp.(interest only)	9.86	1-Dec-92	1-Jun-11	13,080	13,080
				15,066	15,116
				158,607	161,197
Current Portion				(5,527)	(2,572)
				153,080	158,625

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

	Principal	Interest	Total
2007	5,527	10,428	15,955
2008	1,214	10,275	11,489
2009	947	10,188	11,135
2010	2,198	10,127	12,325
2011	1,001	9,909	10,911
	10,887	50,927	61,815
Thereafter	147,720		
	158,607		

(in thousands of dollars)

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 are primarily being used to finance capital projects including the construction of new classrooms and a science complex.

c) INTEREST RATE RISK

The University entered into interest rate exchange (swap) contracts with the Bank of Montreal and Canadian Imperial Bank of Commerce in order to convert variable-rate borrowings to fixed rates, thereby reducing interest rate risk associated with its outstanding debt. The interest rate swap contract involves an exchange of floating rate to fixed rate interest payments between the University and the financial institutions. 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 swap transactions are completely independent and have no direct effect on the relationship between the University and its lenders.

During the fiscal year, the University entered into a future dated interest rate exchange (swap) contract with the Canadian Imperial Bank of Commerce. The start date of this new contract is May 1, 2006.

The notional amount of the interest rate swap and the net unrealized gain (loss) on these contracts outstanding at April 30, 2006 are:

	Due Date	Notional Amount	Gain/(Loss)
Canadian Imperial Bank of Commerce	1-May-06	3,500	(34)
Canadian Imperial Bank of Commerce	6-Jul-07	1,372	(12)
Canadian Imperial Bank of Commerce	2-May-16	6,000	(8)
Bank of Montreal	16-Jun-25	32,038	(5,668)

8. DEFERRED REVENUE AND CONTRIBUTIONS

Deferred revenue and contributions are monies received in the current and prior years for services to be provided in a future year.

a) **Deferred Revenue**	**2006**	**2005**
Prepaid Leases, Fees and Grants	13,824	11,320
OMAFRA Advance	11,360	10,011
Other	1,702	817
	26,886	22,148
Less: Current Deferred Revenue	(13,935)	(12,073)
	12,951	10,075
b) **Deferred Contributions**		
Changes in Deferred Contributions are as follows:		
Balance, beginning of year	103,985	96,338
Contributions received during the year	155,864	110,184
Contributions recognized in the year	(135,421)	(102,537)
Balance, end of year	124,428	103,985
Total Deferred Revenue and Contributions	137,379	114,060

(in thousands of dollars)

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 and changes in net assets.

Deferred Capital Contributions	**2006**	**2005**
Changes in Deferred Capital Contributions are as follows:		
Balance, beginning of year	227,043	220,465
Contributions received during the year	53,064	23,555
Amortization of deferred capital contributions	(18,670)	(16,977)
Balance, end of year	261,437	227,043

10. INVESTMENT IN CAPITAL ASSETS

	2006	**2005**
Capital Assets (Net Book Value)	521,444	456,624
Less:		
Long -Term Debt	(158,607)	(161,197)
Deferred Contributions	(261,437)	(227,043)
Add : Unused Debenture		1,716
Investment In Capital Assets	101,400	70,100

Change in Investment in Capital Assets

	2006	**2005**
Purchase of Capital Assets	100,750	80,346
Debt Payment	2,590	3,467
Increase in Deferred Capital Contributions	(53,064)	(23,555)
Amortization Expense	(35,930)	(33,143)
Deferred Capital Contribution Amortization	18,670	16,977
Use of Debenture Debt	(1,716)	(32,765)
Use of Real Estate External Debt		(3,645)
	31,300	7,682

(in thousands of dollars)

11. UNRESTRICTED NET ASSETS (Schedule 1)

	2006	2005
Operating Fund		
Accrual for Employee Future Benefits	(44,689)	(18,068)
Voluntary Early Retirement Programs:		
2004/2005 Program	(5,974)	(5,974)
2005/2006 Program	(4,586)	(3,404)
Repayment	2,000	-
	(8,560)	(9,378)
University of Guelph-Humber (Note 5)	(3,062)	(3,982)
	(56,311)	(31,428)
Ancillary Enterprises (Schedule 2)	6,787	4,212
Balance, end of year	(49,524)	(27,216)

The University's total Unrestricted Net Assets for the Operating Fund at the end of fiscal 2005/2006 shows a deficit of $56,311 consisting of:

- **Accrual for Employee Future Benefits**: The University has costs associated with its sponsorship of three pension plans and other post-retirement benefits. These costs are actuarially determined and charged to the University's Statement of Operations and Changes in Net Assets. (Refer to Schedule 4)

- **Voluntary Early Retirement Programs**: As part of a plan to meet 2004/05 and 2005/06 budget targets, the Board of Governors approved one-time deficits incurred as a result of buyout costs for certain University faculty and staff. The 2004/05 program costs incurred are $5,974 and as at April 30, 2006 costs of the 2005/06 program are $4,586. The maximum approved deficit under these programs is $10,000 and the University will repay these costs by no later then 2010/2011 at an annual rate of not less than $2,000.

- **University of Guelph-Humber**: This deficit is associated with the University's share of the start-up costs of the University's joint venture with The Humber College Institute of Technology and Advanced Learning. It is planned to have these costs recovered from future operations of the Joint Venture.

(in thousands of dollars)

12. CHANGES IN NET ASSETS – ENDOWMENTS

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. The balance of annual investment income is recorded as a direct change to the endowed net assets.

	Externally Restricted	**Board Restricted**	**Total 2006**	**Total 2005**
Investment income (loss) on endowments	9,347	1,309	10,656	9,481
Less: available for expenditure	(4,625)	(813)	(5,438)	(5,086)
Increase (Decrease) in accumulated endowed investment income	4,722	496	5,218	4,395
Contributions received during year	3,316	433	3,749	8,881
Endowment Contributions	8,038	929	8,967	13,276
Transfers in	4,282		4,282	3,271
Transfer to Capital Fund			-	(3,655)
Net Increase (Decrease) in Net Assets	12,320	929	13,249	12,892
Net assets, beginning of year	118,845	18,253	137,098	124,206
Net assets, end of year	131,165	19,182	150,347	137,098

13. ONTARIO STUDENT OPPORTUNITY TRUST FUND (PHASE I)

The Ontario Student Opportunity Trust Fund (Phase I) program was established by the Government of Ontario to encourage companies and individuals to contribute to funds for Ontario's college and university students. Under this program, donations received from companies and individuals were matched by the province on a dollar for dollar basis. In response to this provincial initiative, the University established the ACCESS Fund within the endowed portfolio. Investment income from the funds will be used for student financial assistance.

The following are the balances of the Ontario Student Opportunity Trust Fund (Phase I) recorded at cost, and the related transactions for the year ended April 30, 2006:

Access Endowment Fund	**2006**	**2005**
Opening balance - May 1	20,986	21,815
Net Investment income endowed - realized	(404)	(829)
Closing balance - April 30 *	20,582	20,986

Access Expendable Fund	**2006**	**2005**
Opening balance - May 1	2,383	2,222
Investment income available for expenditure	1,005	1,011
Bursaries awarded **	(885)	(850)
Closing balance - April 30	2,503	2,383

* Includes original donated capital of $20,529 (2005 $20,529) and accumulated realized net preservation of capital of $53 (2005 $457).

** The total number of bursaries awarded for the year ended April 30, 2006 was 740 (664 in 2005).

The market value of the endowment as at April 30, 2006 was $21,142 (2005 $20,606).

This information relates to Phase I of the Ontario Student Opportunity Trust Fund and not Phase II which is separately audited.

14. DONATIONS

	2006	2005
Donations received during the year	11,390	8,825
Donations recorded as a direct addition to endowments	(3,298)	(3,490)
Donations recorded as deferred capital contibutions	(725)	(1,031)
Donations recognized as revenue	7,367	4,304

15. DEFERRED CHARGE

Transaction costs and discount totaling $934 incurred in connection with the $100,000 6.24% Series A unsecured debenture issue are being amortized over the term of the debt (40 years). Amortization costs recognized in fiscal 2006 are $23 (2005 $23).

16. COMMITMENTS

Costs to complete major capital projects in progress as at April 30, 2006 are estimated to be $47,218 (2005 $94,220) and will be funded by government grants, gifts and University resources.

17. CONTINGENCY

a) The University is a defendant in a number of legal proceedings. Claims against the University in these proceedings have not been reflected in these financial statements. It is the opinion of the management and the University's legal counsel that the resolution of these claims will not have a material effect on the financial position of the University.

b) 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 University Reciprocal Insurance Exchange (C.U.R.I.E.), the University is required to share in any net losses experienced by C.U.R.I.E. The commitment was recently renewed to January 1, 2008.

c) 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 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.

d) The Guelph Golf & Recreation Club Limited (Cutten Club) was wholly owned by the University. As of March 31, 2005, the Guelph Golf & Recreation Club Limited (Cutten Club) discontinued operations. The University has entered into a lease arrangement with the new entity, whereby the University leases the assets to the new entity.

   As part of this agreement, the University will guarantee a loan of up to $2,500 for the new legal entity. As of April 30, 2006 there was no actual loan amount outstanding.

18. COMPARATIVE NUMBERS

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

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2006
(in thousands of dollars)

	OPERATING FUND	CAPITAL FUND	ANCILLARY ENTERPRISES (Schedule 2)	RESEARCH & TRUST FUND	ENDOWMENT FUND	TOTAL 2006	TOTAL 2005
REVENUE							
Ministry of Training, Colleges and Universities	140,244	1,303	186			141,733	134,983
Ministry of Agriculture, Food and Rural Affairs	50,226					50,226	49,541
Tuition (Credit and Non-Credit)	88,658					88,658	88,805
Donations (Note 14)	41	520		6,806		7,367	4,304
Sales of Goods and Services	42,162		60,233			102,395	97,326
Investment Income (Note 4)	2,038	2,198	403	4,999		9,638	11,654
Other Grants and Contracts	2,523			70,419		72,942	76,679
Amortization of Deferred Capital Contributions (Note 9)		18,441	229			18,670	16,977
Other	18,715	38	407			19,160	19,470
	344,607	22,500	61,458	82,224	-	510,789	499,739
EXPENSES							
Salaries	203,228		13,187	33,627		250,042	255,422
Benefits	65,905		2,615	3,719		72,239	62,329
Travel	6,656		147	5,756		12,559	12,119
Operating	73,653	161	21,467	22,873		118,154	119,775
Minor Renovations and Repairs		2,314	1,021			3,335	3,994
Interest		6,346	4,177			10,523	10,686
Scholarships and Bursaries	8,119			10,793		18,912	19,425
Institutional (Recovery) Charges	(8,666)		8,666			-	-
Capital Asset Amortization		31,939	3,991			35,930	33,143
	348,895	40,760	55,271	76,768	-	521,694	516,893
Revenue Less Expenses	(4,288)	(18,260)	6,187	5,456	-	(10,905)	(17,154)
Endowment Contributions (Note 12)					8,967	8,967	13,276
Interfund Transactions	(14,977)	20,047	(5,488)	(3,864)	4,282	-	-
Net Increase (Decrease) in Net Assets	(19,265)	1,787	699	1,592	13,249	(1,938)	(3,878)
Composed Of:							
Net Increase (Decrease) in Investment in Capital Assets		10,599	20,701			31,300	6,456
Net Increase (Decrease) in Endowments					13,249	13,249	12,892
Net Increase (Decrease) in Internally Restricted	5,618	(8,812)	(22,577)	1,592		(24,179)	5,378
Net Increase (Decrease) in Unrestricted	(24,883)		2,575			(22,308)	(28,604)
Net Increase (Decrease) in Net Assets	(19,265)	1,787	699	1,592	13,249	(1,938)	(3,878)

Schedule 1

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2006
(in thousands of dollars)

	OPERATING FUND	CAPITAL FUND	ANCILLARY ENTERPRISES (Schedule 2)	RESEARCH & TRUST FUND	ENDOWMENT FUND	TOTAL 2006	TOTAL 2005
Net Assets, Beginning of Year	(9,555)	71,470	18,426	27,048	137,098	244,487	248,365
Net Increase (Decrease) in Net Assets	(19,265)	1,787	699	1,592	13,249	(1,938)	(3,878)
Net Assets, End of Year	(28,820)	73,257	19,125	28,640	150,347	242,549	244,487
Net Assets Components:							
Invested in Capital Assets		75,384	26,016			101,400	70,100
Endowed					150,347	150,347	137,098
Internally Restricted	27,491	(2,127)	(13,678)	28,640		40,326	64,505
Unrestricted Surplus (Deficit)	(56,311)		6,787			(49,524)	(27,216)
Net Assets, End of Year, Surplus (Deficit)	(28,820)	73,257	19,125	28,640	150,347	242,549	244,487

Schedule 2

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR ANCILLARY ENTERPRISES
FOR THE YEAR ENDED APRIL 30, 2006

(in thousands of dollars)

	HOSPITALITY SERVICES	REAL ESTATE	STUDENT HOUSING SERVICES	PARKING	UNIVERSITY CENTRE	TOTAL 2006	TOTAL 2005
REVENUE	28,560	4,480	24,368	2,201	1,849	61,458	61,445
EXPENSES							
Cost of Materials	12,112				311	12,423	13,783
Salaries	8,309	202	3,740	197	739	13,187	13,293
Benefits	1,652	48	723	45	147	2,615	2,532
Institutional Charges	1,643		6,202	392	429	8,666	8,220
Operating	3,939	924	3,615	207	359	9,044	9,279
Travel	58	8	70	5	6	147	146
Minor Renovations and Repairs	89		696	236		1,021	1,377
Interest		59	4,118			4,177	4,277
Capital Asset Amortization	507	463	2,881	125	15	3,991	3,947
Total Operating Expenses	28,309	1,704	22,045	1,207	2,006	55,271	56,854
Revenue Less Expenses	251	2,776	2,323	994	(157)	6,187	4,591
Interfund Transactions	(402)	(3,715)	(787)	(821)	237	(5,488)	(3,521)
Net Increase (Decrease) in Net Assets	(151)	(939)	1,536	173	80	699	1,070
Composed Of:							
Net Increase (Decrease) in Investment in Capital Assets	3,290	2,430	14,767	40	174	20,701	572
Net Increase (Decrease) in Internally Restricted	(3,440)	(4,708)	(14,441)		12	(22,577)	617
Net Increase (Decease) in Unrestricted	(1)	1,339	1,210	133	(106)	2,575	(119)
Net Increase (Decrease) in Net Assets	(151)	(939)	1,536	173	80	699	1,070

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR ANCILLARY ENTERPRISES
FOR THE YEAR ENDED APRIL 30, 2006

(in thousands of dollars)

	HOSPITALITY SERVICES	REAL ESTATE	STUDENT HOUSING SERVICES	PARKING	UNIVERSITY CENTRE	TOTAL 2006	TOTAL 2005
Net Assets, Beginning of Year	5,231	12,217	(3,295)	3,703	570	18,426	17,356
Net Increase (Decrease) in Net Assets	(151)	(939)	1,536	173	80	699	1,070
Net Assets, End of Year	5,080	11,278	(1,759)	3,876	650	19,125	18,426
Net Assets Components:							
Invested in Capital Assets *	8,347	10,898	3,630	2,893	248	26,016	5,315
Internally Restricted	(3,231)	(2,590)	(8,079)		222	(13,678)	8,899
Unrestricted Surplus (Deficit)**	(36)	2,970	2,690	983	180	6,787	4,212
Net Assets, End of Year, Surplus (Deficit)	5,080	11,278	(1,759)	3,876	650	19,125	18,426

* Net Assets "Invested in Capital Assets" presents the funds expended on capital assets less accumulated amortization, related debt and deferred capital contributions.

** Accumulated net results for operations are presented in the Unrestricted Net Assets.

Schedule 3

UNIVERSITY OF GUELPH

STATEMENT OF OMAFRA REVENUES AND EXPENSES BY OBJECT

For the Year Ended April 30, 2006

(in thousands of dollars)

The University's research and education agreement with the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) includes the research and education programs at Guelph, the operation of 3 campuses at Alfred, Kemptville and Ridgetown, Ontario and a laboratory services' facility. This agreement was renewed for another five years effective April 1, 2002. The following figures reflect the revenues and expenses of the OMAFRA agreement for 2005/2006.

	OAC Guelph	OAC Alfred	OAC Kemptville	OAC Ridgetown	OVC Guelph	Other Colleges Guelph	Lab Services Division	Stations & Academic Services Guelph	Institutional Revenue & Expenses	Total OMAFRA 2006	Total OMAFRA 2005
Income											
Provincial	11,138	2,715	4,051	3,862	7,302	1,349	7,874	5,525	6,410	50,226	49,541
Tuition	258	272	1,674	1,092						3,296	3,203
Sales of Goods and Services	6	245	1,914	3,021			12,001	2,161		19,348	16,102
Other	39	466	1,368	1,351		2	22	1,121		4,369	5,524
Total Income	11,441	3,698	9,007	9,326	7,302	1,351	19,897	8,807	6,410	77,239	74,370
Expenses											
Salaries	4,717	1,986	4,575	5,065	2,408	405	10,360	3,763		33,279	31,909
Benefits	993	424	1,030	1,177	526	46	2,399	893		7,488	6,408
Total Personnel Costs	5,710	2,410	5,605	6,242	2,934	451	12,759	4,656		40,767	38,317
Travel	142	110	101	102	262	47	105	18		887	897
Operating	701	1,101	3,165	2,767	1,311	288	6,394	4,003		19,730	19,279
Equipment	47	87	188	214	2	140	1,004	220		1,902	1,909
Support for Faculty Costs	4,782				2,833	300				7,915	7,915
Service Costs									6,410	6,410	6,410
Expenses before Transfers	11,382	3,708	9,059	9,325	7,342	1,226	20,262	8,897	6,410	77,611	74,727
Interfund Transfers	59	(10)	(52)	1	(40)	125	(365)	(90)		(372)	(357)
Total Contract Expenses	11,441	3,698	9,007	9,326	7,302	1,351	19,897	8,807	6,410	77,239	74,370
Net Income (Expense)	-	-	-	-	-	-	-	-	-	-	-

(in thousands of dollars)

EMPLOYEE FUTURE BENEFITS

a) Description of Plans

The University has a number of funded and unfunded defined benefit programs that provide pension and other post-employment benefits to its employees. The pension programs 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 benefit plans provide extended health care and dental plan benefits 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.

b) Accrued Benefit Obligations and Plan Assets

The University measures the accrued benefit obligations (ABOs) and the fair value of plan assets for accounting purposes as at January 31 of each year. Information about the University's defined benefit plans, in aggregate, is as follows:

	Pension Plans*		Other Benefit Plans		Total	
	2006	2005	2006	2005	2006	2005
Change in Benefit Obligation						
Benefit obligation - beginning of measurement period	801,587	726,381	152,806	131,169	954,393	857,550
Current service cost (employer)	22,102	20,488	5,652	5,070	27,754	25,558
Interest cost	45,228	42,961	8,694	7,806	53,922	50,767
Employee contributions	9,428	9,420	-	-	9,428	9,420
Past Service Costs	8,210	8,893	-	-	8,210	8,893
Actuarial loss	59,987	26,630	18,081	11,522	78,068	38,152
Benefits paid	(40,535)	(33,186)	(3,485)	(2,761)	(44,020)	(35,947)
Benefit obligation - end of measurement period	906,007	801,587	181,748	152,806	1,087,755	954,393
Change in Plan Assets						
Market value of plan assets - beginning of measurement period	697,951	671,423	-	-	697,951	671,423
Actual return on plan assets, net of expenses	82,332	39,470	-	-	82,332	39,470
Employer contribution	8,350	10,824	3,485	2,761	11,835	13,585
Employee contributions	9,428	9,420	-	-	9,428	9,420
Benefits paid	(40,535)	(33,186)	(3,485)	(2,761)	(44,020)	(35,947)
Market value of plan assets - end of measurement period	757,526	697,951	-	-	757,526	697,951

(in thousands of dollars)

EMPLOYEE FUTURE BENEFITS (CONTINUED)

b) Accrued Benefit Obligations and Plan Assets (continued)

	Pension Plans*		Other Benefit Plans		Total	
	2006	2005	2006	2005	2006	2005
Reconciliation of funded status						
Funded status - surplus (deficit)	(148,481)	(103,636)	(181,748)	(152,806)	(330,229)	(256,442)
Estimated employer contributions after measurement date	14	2,378	923	690	937	3,068
Unamortized transitional obligation (asset)	(89,380)	(101,980)	38,495	42,773	(50,885)	(59,207)
Unamortized past service costs	29,357	23,679	-	-	29,357	23,679
Unamortized net actuarial loss	251,357	238,011	68,799	53,162	320,156	291,173
Accrued benefit asset (liability), before Valuation Allowance	42,867	58,452	(73,531)	(56,181)	(30,664)	2,271
Total Valuation Allowance (VA)	(3,222)	(3,018)	-	-	(3,222)	(3,018)
Accrued benefit asset (liability), net of VA	39,645	55,434	(73,531)	(56,181)	(33,886)	(747)
Statement of Financial Position						
Deferred pension costs	40,275	55,960	-	-	40,275	55,960
Accounts payable (employee future benefits - current liability)	(22)	(146)	(3,833)	(3,037)	(3,855)	(3,183)
Employee future benefits (long-term liability)	(608)	(380)	(69,698)	(53,144)	(70,306)	(53,524)
Accrued benefit asset (liability), net of VA	39,645	55,434	(73,531)	(56,181)	(33,886)	(747)

*Pension plans include accrued benefit obligations and plan assets in respect of plans that are not fully funded of $895,236 and $743,186 respectively ($791,709 and $684,591 respectively for 2005).

(in thousands of dollars)

EMPLOYEE FUTURE BENEFITS (CONTINUED)

c) Net Benefit Plan Costs

	Pension Plans		Other Benefit Plans		Total	
	2006	2005	2006	2005	2006	2005
Components of cost						
Current service cost (employer)	22,102	20,488	5,652	5,070	27,754	25,558
Interest cost	45,228	42,961	8,694	7,806	53,922	50,767
Actual return on assets	(82,332)	(39,470)	-	-	(82,332)	(39,470)
Actuarial (gains) losses	59,987	26,630	18,081	11,522	78,068	38,152
Past service costs	8,210	8,893	-	-	8,210	8,893
Settlements/curtailments	-	-	-	-	-	-
Difference between actual and expected return	34,259	(10,410)	-	-	34,259	(10,410)
Difference between actual and					-	-
recognized actuarial gains (losses)	(47,605)	(15,727)	(15,637)	(9,555)	(63,242)	(25,282)
Difference between actual and						
recognized past service costs in year	(5,678)	(7,043)	-	-	(5,678)	(7,043)
Amortization of transitional obligation (asset)	(12,600)	(12,597)	4,278	4,278	(8,322)	(8,319)
Amortization of transitional increase in VA	5	5	-	-	5	5
Current increase (decrease) in VA	199	(233)	-	-	199	(233)
Net benefit cost	21,775	13,497	21,068	19,121	42,843	32,618

The net benefit plan costs are recorded in the Statement of Operations and Changes in Fund Balances as a benefit expense.

(in thousands of dollars)

EMPLOYEE FUTURE BENEFITS (CONTINUED)

d) Cash Payments

Total cash payments for employee future benefits for the 12-months ended January 31, 2006, consisting of cash contributions by the University to the funded pension plans and cash payments directly to beneficiaries for the unfunded other benefit plans, were $11,835 (2005 $13,585).

e) Asset Allocation

The asset allocation of the pension plans pooled funds, at the measurement date of January 31, is as follows:

	2006	2005
Percentage plan assets at January 31		
Equity securites	66.9%	65.9%
Debt Securites	30.9%	31.9%
Cash and short term investments	1.6%	1.8%
Other	0.6%	0.4%
	100.0%	100.0%

f) Actuarial Valuations

The most recent actuarial valuations for the University's defined benefit plans are as follows:

Registered Pension Plans	September 30, 2003
Other Plans	January 31, 2004

For the University's registered pension plans, the next funding valuation is required to be prepared with an effective date no later than September 30, 2006.

(in thousands of dollars)

EMPLOYEE FUTURE BENEFITS (CONTINUED)

g) Significant Assumptions

The significant actuarial assumptions adopted are as follows:

	Pension Plans		Other Benefit Plans	
	2006	2005	2006	2005
For determining accrued benefit obligation at end of fiscal period:				
Discount rate	5.15%	5.65%	5.25%	5.65%
Rate of increase in future compensation	4.00%	4.00%	n/a	n/a
Rate of increase in national average wage	3.50%	3.50%	n/a	n/a
Rate of increase in Consumer Price Index (CPI)	3.00%	3.00%	n/a	n/a
For determining benefit cost during fiscal period:				
Discount rate	5.65%	5.90%	5.65%	5.90%
Rate of increase in future compensation	4.00%	4.00%	n/a	n/a
Rate of increase in national average wage	3.50%	3.50%	n/a	n/a
Rate of increase in Consumer Price Index (CPI)	3.00%	3.00%	n/a	n/a
Expected long-term rate of return on plan assets	7.00%	7.50%	n/a	n/a
Assumed health care cost trend rate at end of fiscal period:				
Dental Inflation	n/a	n/a	4.50%	4.50%
Initial health care cost trend rate	n/a	n/a	10.00%	10.00%
Annual rate of decline in health care cost trend rate	n/a	n/a	0.50%	0.50%
Year of initial decline in health care cost trend rate	n/a	n/a	2008	2007
Ultimate health care cost trend rate	n/a	n/a	5.00%	5.00%

(in thousands of dollars)

EMPLOYEE FUTURE BENEFITS (CONTINUED)

h) Sensitivity Analysis

Assumed discount rate and health care cost trend rates have a significant effect on the amounts reported for the benefit plans. The sensitivities of each assumption have been calculated independently of changes in other assumptions. Actual experience may result in changes in multiple assumptions simultaneously, which could magnify or reduce certain sensitivities.

	Pension Plans		Other Benefit Plans	
	Benefit Obligation 2006	Net Benefit Cost 2007	Benefit Obligation 2006	Net Benefit Cost 2007
	Increase (Decrease)		Increase (Decrease)	
Impact of discount rate change:				
1% increase	(115,986)	(13,343)	(30,502)	(3,488)
1% decrease	133,164	14,559	36,653	4,000
Impact of health care cost trend rate change:				
1% increase	n/a	n/a	36,895	3,967
1% decrease	n/a	n/a	(30,715)	(3,159)