

# **University of Guelph**

## **SUMMARY OF FINANCIAL RESULTS AND AUDITED FINANCIAL STATEMENTS**

For the fiscal year May 1, 2006 to April 30, 2007

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University of Guelph  
**SUMMARY OF FINANCIAL RESULTS**  
For the fiscal year May 1, 2006 to April 30, 2007

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**SUMMARY OF FINANCIAL RESULTS**  
For the fiscal year May 1, 2006 to April 30, 2007

The following report summarizes University financial results for the year ended April 30, 2007 (referred to as fiscal 2007) as presented in the audited financial statements. These statements have been prepared under 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. 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 22.

**A: Highlights for the Fiscal Year:**

Table A presents some major University statistics (financial and other) over the past five years. The financial results are summarized from the audited results of the University over this time period. While there are no major changes in relative composition of overall revenues and expenses, the University's financial position has been impacted by both capital acquisition programs and the increasing costs of post-employment benefits. The balance of this report will discuss these impacts as well as significant events that occurred specifically in fiscal 2007 that are reflected in the 2007 audited financial statements.

**Comparative University Financial Results Fiscal 2003 - 2007**

**Table A**

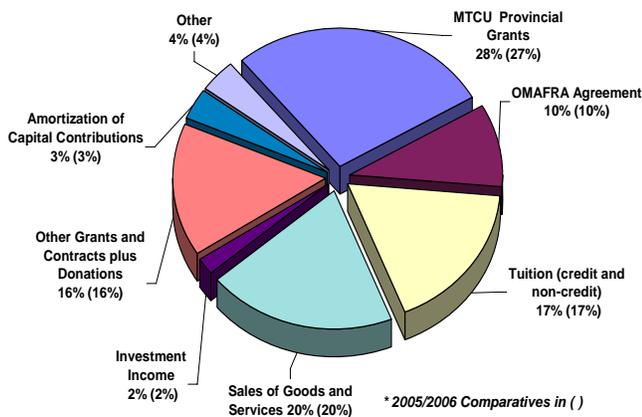
	2003	2004	2005	2006	2007
<b>Enrolment - University Degree Programs (FTEs)</b>	15,936	17,247	17,653	17,538	18,286
<b>Faculty and Staff ( Regular Budgeted FTEs)</b>	2,670	2,740	2,830	2,640	2,922
<b>Revenues and Expenses:</b>					
<b>Total Revenues (\$M)</b>	\$ 446.3	\$ 476.5	\$ 499.7	\$ 510.8	\$ 567.0
<b>Total Expenditures (\$M)</b>	\$ 445.8	\$ 491.1	\$ 516.9	\$ 521.7	\$ 569.9
<b>Annual Surplus/(Deficit) (\$M)</b>	\$ 0.5	\$ (14.6)	\$ (17.2)	\$ (10.9)	\$ (2.9)
<b>Revenue Mix (% of Total Revenues)</b>					
Provincial Operating Grants	25%	26%	27%	27%	28%
Tuition (University Degree Programs)	16%	16%	16%	16%	15%
Endowment & Donations	2%	2%	2%	3%	2%
<b>Expense Mix (% of Total Expenses)</b>					
Salaries	49%	48%	49%	48%	47%
Benefits	10%	13%	12%	14%	14%
<b>Capital and Capital Debt:</b>					
<b>Total Debt</b>	\$ 168.0	\$ 164.7	\$ 161.2	\$ 158.6	\$ 159.3
<b>- Total Debt per FTE (\$)</b>	\$ 10,542	\$ 9,549	\$ 9,132	\$ 9,043	\$ 8,712
<b>Capital Acquisitions (\$M)</b>	\$ 47.1	\$ 88.3	\$ 80.4	\$ 100.7	\$ 68.7
<b>Provincial Capital Grants (\$M)</b>	\$ 1.7	\$ 2.2	\$ 10.5	\$ 26.7	\$ 2.3
<b>Endowments:</b>					
- Externally Restricted (\$M)	\$ 99.5	\$ 115.9	\$ 129.8	\$ 143.2	\$ 162.3
- Internally Restricted (\$M)	\$ 21.2	\$ 23.6	\$ 19.9	\$ 20.9	\$ 22.6
<b>Total Endowment Assets - Market Values</b>	\$ 120.7	\$ 139.5	\$ 149.7	\$ 164.2	\$ 184.9
<b>- Total Endowment per FTE (\$)</b>	\$ 7,574	\$ 8,088	\$ 8,480	\$ 9,362	\$ 10,111
<b>Post-Employment Benefits:</b>					
<b>Pension Plans - Funded Status Surplus/(Deficit)</b>	\$ (83.5)	\$ (55.0)	\$ (103.6)	\$ (148.5)	\$ (71.4)
<b>Other Benefit Plans -Funded Status Surplus/(Deficit)</b>	\$ (92.4)	\$ (131.2)	\$ (152.8)	\$ (181.7)	\$ (237.0)
<b>Latest Valuation Date - Registered Plans</b>	Sep-01	Sep-03	Sep-03	Sep-03	Sep-06
<b>Latest Valuation Date - Other plans</b>	Jan-01	Jan-04	Jan-04	Jan-04	Jan-07

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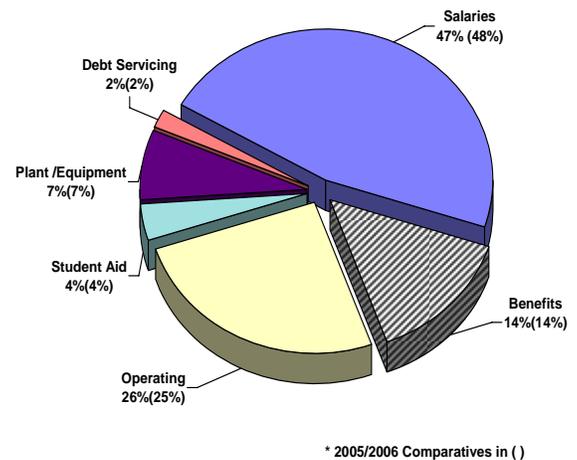
**Overview of Total University Revenues and Expenses:**

Overall in 2007, University revenue increased by \$56.2 million or 11.0% to \$567.0 million (refer to Graph A). University Expenses totaled \$569.9 million (see Graph B), an increase of 9.2% or \$48.2 million. Revenue growth was mainly the result of additional undergraduate enrolment and research activity. Expenses grew due to a number of factors including in response to enrolment growth and the continued increasing costs of employer benefits costs. More detailed explanations of these and fiscal 2007 financial results are presented in the following report.

**GRAPH A**  
**2006/2007 University Revenues - \$567.0 M**  
**(2005/2006 \$510.8 M)\***



**GRAPH B**  
**2006/2007 University Expenses - \$569.9 M**  
**(2005/2006 \$521.7 M) \***



**2007 Highlights:**

- ❖ The University experienced a growth of approximately 700 undergraduate students (4%) resulting in additional revenues in a number of areas including tuition, sales in ancillary operations (food and housing) and MTCU enrolment-related grants. Accompanying these students, were additional costs associated with teaching, a variety of support services and student assistance.
- ❖ In April, 2007, the province of Ontario made a major unexpected distribution of one-time operating grants for the university sector resulting in a transfer of \$12.7M for the University of Guelph. This grant along with other available one-time 2007 operating funds has been reserved for assistance in meeting the University's 2007/2008 MTCU Operating Budget objectives as approved by the Board of Governor in June, 2007.
- ❖ The market value of University endowment funds increased by \$20.7 million or 12.6% to \$184.9 million as a result of investment returns of 12.8% and net capital additions of \$8.7 million.
- ❖ Funding from the OMAFRA (Ontario Ministry of Agriculture, Food and Rural Affairs) Agreement increased by 9.4% as a result of the transfer of the operating responsibility for 17 major facilities (teaching and research) across Ontario to the University. This increase in revenues was offset by an equivalent increase in operating expenses.

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- ❖ Although 2007 research related funds received declined compared to last year, 2007 research spending (and recorded revenue) increased 18%. Funds in support of this spending were provided from awards received (mainly from federal and provincial governments) in prior years. The decline in 2007 funding received (relative to 2006) reflects the award in 2006 of major one-time funding from Ontario for several large infrastructure projects. (It is expected there will be additional opportunities for infrastructure support from newly-announced federal and provincial programs in 2008.)
- ❖ The cost of employee benefits, dominated by post-employment benefits (costs and liabilities) continued to increase both as a percentage of total costs and salaries. Of the two components of post-employment costs, pension and other (dental and medical coverage), the University sponsored pension plans require funding (assets) to be provided according to provincial legislation. An actuarial valuation of the pension plans (at September 2006) resulted in required University contributions of approximately \$48M per year. These commenced in January 2007. In the immediate term, the University is putting in place plans to assist in financing these contribution levels as well as to regularly review opportunities for reduced contributions. Longer term, analysis is underway to determine the sustainability of the current plan structures.
- ❖ The University's joint venture with Humber College Institute of Technology and Advanced Learning earned \$7.9M in net revenues (50% of which is the University's share), repaying the initial start-up costs (operations commenced in 2002) and returning \$0.8M to the University in fiscal 2007.
- ❖ Spending for the University's capital acquisitions continued at significant levels (\$68.7M) under a number of major programs including a planned 5-year program for critical building infrastructure and maintenance investments which, in total, will see an estimated \$127.7M in expenses and \$97.7M in potential borrowing (in the absence of any increased provincial support). Year 1 of this plan was 2007 in which \$8.9M in costs were incurred.

The following sections contain more details on 2007 fiscal results and the audited financial statements and auditor's report.

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**DETAILED FINANCIAL ANALYSIS:**

**B. REVENUES:**

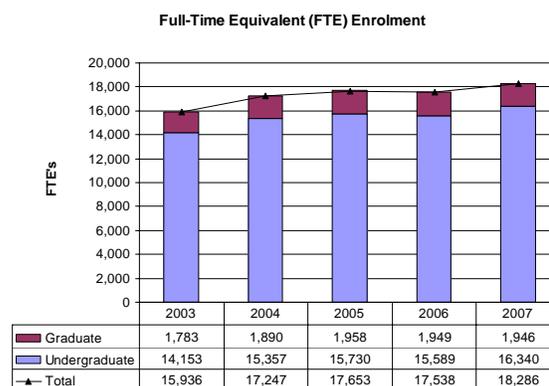
University revenue from all sources was \$567.0 million, an increase of 11.0% or \$56.2 million from fiscal 2006 (\$510.8 million). Most of the increase in revenue was in the major categories of: MTCU operating grants, other grants and contracts, sales of goods and services and tuition. The following summarizes the major changes in revenues compared to fiscal 2006:

- Provincial grants from the **Ministry of Training Colleges and Universities** (28% of total revenues) increased by \$17.6 million or 12.4%. In April 2007, one-time grants of \$12.7 million were received from MTCU as part of a university-sector wide general allocation. Further, an additional \$5.0 million was received under the Access to Higher Quality Education program (funds received for realizing additional enrolments, mainly undergraduates).
- Provincial funding recognized under the research, teaching and laboratory contract with the **Ontario Ministry of Agriculture, Food and Rural Affairs** (OMAFRA) (10% of total revenues) increased by \$4.7 million or 9.3%, reflecting an increase in provincial cash spent by operating units (additional details follow). OMAFRA agreement activities at the University have two sources of funding: funds from the province<sup>1</sup> and general revenues<sup>2</sup> earned at facilities supported under the agreement. These general revenues are derived mainly from the sale of produce, tuition (diploma) revenues and laboratory fees. Since fiscal 2000, these non-provincial sources of revenue have grown significantly, and now provide 36% 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. In conjunction with the transfer of responsibility, additional funding of \$4.3 million (included in the total \$4.7 million increased revenue, as noted above) is now transferred annually under the OMAFRA contract for the additional facility operations and maintenance costs.

- **Enrolments:** In 2007, the University slightly surpassed the overall strategic target of total campus enrolment in credit courses<sup>3</sup> of 18,000 FTE's (Full-Time Equivalents). This increase was due to greater fall 2006 first-year student acceptances (of offers) than expected. Graduate enrolment remained effectively unchanged. Total enrolment increased by 4.3% to 18,286 FTEs (refer to Graph D).

**Graph D**



- **Tuition Revenue** (17% of total revenues) increased by \$7.9 million or 8.9% to \$96.5 million. Tuition Revenue consists of revenues earned for both credit (\$87.2M) and non-credit (\$9.3M) courses. Non-credit courses include a wide variety of programs ranging from general continuing education to OMAFRA diploma and professional certification programs. (Non-credit courses and international student enrolments are not eligible for grant funding

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

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support from MTCU.) Tuition revenue earned from MTCU credit-course revenues increased by \$7.2 million to \$87.2 million or 9.0%), as a result of both increases in enrolments and tuition fees in accordance with MTCU guidelines. Non-credit tuition revenue increased by \$0.7 million or 8.0% compared to the previous year reflecting a general increase in numbers and rates charged across a variety of programs.

- **Sales of Goods and Services** (20% of total revenues) increased by \$8.3 million or 8.1% which included:
  - a \$5.0-million combined increase in Hospitality (food) and Student Housing revenues as a result of an increase in enrolments and prices relative to 2006.
  - a \$1.3-million increase in a variety of instructional-based revenues mainly as a result of increases in training programs particularly at the Ridgetown and Kemptville campuses.
  - a \$2.0 million (2%) net increase from a large variety of activities such as user fees charged for OVC (Ontario Veterinary College) teaching hospital services, laboratory fees, printing, recovery of miscellaneous service costs and other services provided by Ancillary units (housing and food operations) .

- **Other Revenues:** Increased by \$3.7 million or 15.5%. 50% of this increase was associated with new facilities-related activity (funding for minor renovations) and animal sales at OMAFRA locations. The balance of this increase is attributable to a variety of activities across the University.

**C. EXPENSES:**

University Expenses which totaled \$569.9 million increased 9.2% or \$48.2 million from fiscal 2006 (\$521.7 million).

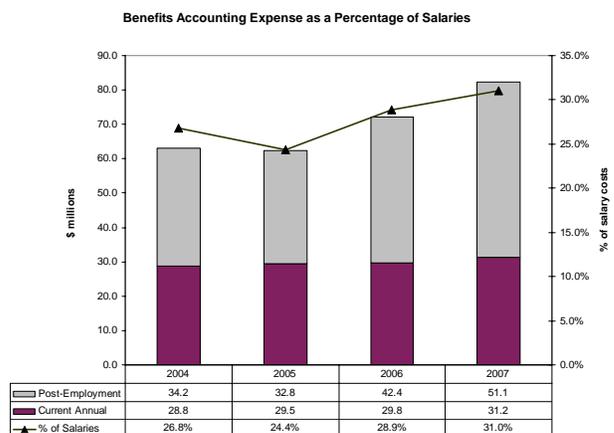
Major components of this change over last year are:

- **Salaries** (47% of total expenses) In fiscal 2007, the University’s total recorded salaries increased by \$15.2 million or 6.1%. The increase was due to the impact of negotiated salary increases for various employee groups and additional hiring directed mainly to support enrolment growth across a

number of areas including teaching and support services.

- **Benefits** (14% of total expenses) increased by \$10.1 million to \$82.3 million or 14%. The employer costs of benefits are now 31.0% of salaries (28.9% in fiscal 2006). Refer to Graph C. A significant portion of this increase (\$8.7 million of the \$10.1 million increase) reflects the impact of accounting<sup>4</sup> for the employer costs for post-employment benefits (pension and dental and health care coverage).

**Graph C**



This year, University post-employment expenses increased 21% to \$51.1 million compared to \$42.4 million in 2006. 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 for those provided under the University’s coverage for prescribed 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 40 for additional details.)

<sup>4</sup> 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). While application of this standard can create significant changes in accounting expense from year to year (it is dependent on financial market conditions at the time the expense is calculated) the accounting expense is a current reflection of future cash requirements.

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In recording the impact of these charges over the past several years, the University has incurred an accumulated unrestricted deficit of \$79.2 million. Refer to Note 11- Unrestricted Net Assets on Page 32.

On a purely cash basis, total payments for benefits increased by \$22.8M from \$39.1 million in fiscal 2006 to \$61.9 million in fiscal 2007 – a 58% increase consisting of:

- \$1.4M for non post-employment (statutory and negotiated) employer benefit costs, an increase of 4.7% to \$31.2 million .
- Cash contributions for post-employment liabilities increased by \$21.4 million from \$9.3 million in fiscal 2006 to \$30.7 million in fiscal 2007. This significant employer cash contribution (for pension plans) was required based on the results of the actuarial valuation performed at September 30, 2006, on the university's registered pension plans. (Cash contributions for non-pension post-employment costs remained unchanged at \$3.4 million for the year)

(Note: the actuarial valuation is a requirement under the Pensions and Benefits Act of Ontario for all sponsors of registered pension plans. As plan sponsor, the University is required to fund any deficits in the plans using actuarial methods determined appropriate for defined benefits plans by provincial legislation and regulators e.g., Financial Services Commission of Ontario). At September 30, 2006, the pension plans' fiscal year end, the pension plans had a combined deficit of approximately \$130 million. Application of funding rules has the University paying \$48 million annually into the plans to fund this deficit. Payments at this rate commenced in January 2007, only partially impacting fiscal 2007. With the assistance of its actuaries, the University is undertaking regular reviews of the pension plans' funded status with the express objective of seeking opportunities (e.g., from improved market conditions) to reduce these payments. In the short-term, plans are underway to establish facilities to finance this deficit and to increase contributions in the University's operating budget to repay any borrowing costs. Longer-term analysis is underway to determine

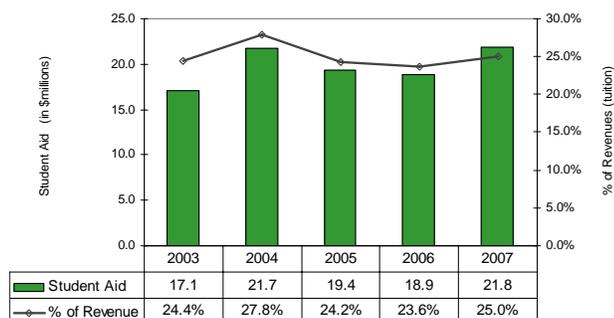
the longer term sustainability of these plans in the context of benefits and cost-sharing structures under a variety of future financial market conditions.

- **Operating Expenses** (26% of total expenses) increased by \$15.0 million or 12.7%. This increase reflects a general increase in purchases of supplies, services and equipment in support of increased activity in a number of areas, including teaching, support services (for increased enrolments), OMAFRA and research. \$6.1 million of the increase was directly related to the OMAFRA agreement activities within the Operating Fund as a result of the additional responsibilities for the operating costs of physical facilities assumed by the University in April of 2006. Operating expenses in the Research and Trust Fund and Ancillary Enterprises Fund also increased \$5.7 million and \$2.1 million respectively reflecting a general increase in activity and offset by an increase in revenues.
- **Scholarships and Bursaries:** Total University spending on Scholarships and Bursaries increased by \$2.9 million or 15.4% to \$21.8 million (\$18.9 million in fiscal 2006; 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. Almost all of the increase in 2007 was within the Operating Fund (\$2.7 million of \$2.9 million). This increase reflects the greater number of first-year entrance scholarships awarded as a direct result of a higher intake in the fall of 2006 (compared to the fall of 2005). Student aid funding is now approximately 25.0% (23.6% in 2006) of total credit tuition revenues. Of the \$21.8 million, 49% is funded from the Operating Fund and 51% from trust (restricted) funds, including endowments.

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**Graph E**

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



- Capital Asset Amortization:** In accordance with CICA accounting principles, 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 23 of the financial statements for the specific policy). The charge to income is called amortization (or depreciation). In fiscal 2007 this charge increased by \$3.4 million or 9.6% over 2006 as 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 10.)

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

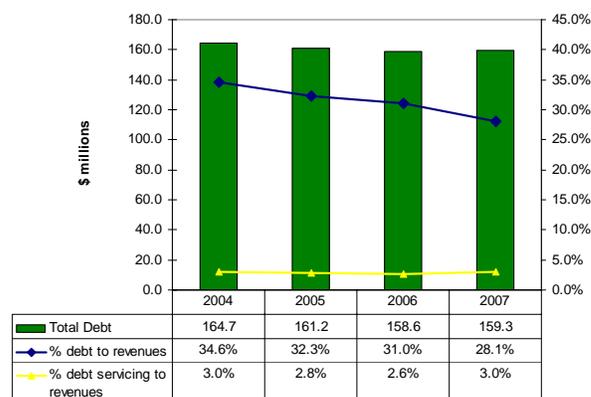
The cost of the debenture is reflected in the interest expense of \$10.6 million (\$10.5 million in 2006).

Total external debt and debt servicing as a percentage of total University revenue are 28.1% (31.0% in 2006) and 3.0% (2.6% in 2006) respectively (refer to Graph F). Both percentages are within University policy limits of 45% and 4.5%, respectively.

Additional debt totaling \$6.9 million was incurred in fiscal 2007. Of this, \$6 million was incurred for Real Estate Division use and replaces the \$3.5 million interest rate exchange (swap) contract that matured in May of 2006. The remaining \$0.9 million reflects a five year capital lease for laboratory testing equipment. The increase in total debt and debt servicing from 2006 reflects the new debt and repayment of \$6.2 million in external debt in 2007.<sup>5</sup> The decline in debt as a percentage of revenue reflects growth in total income relative to the increase in total debt.

**Graph F**

Total Debt and Debt Servicing  
 as a Percentage of Total Revenue



Note: policy limits for % debt to revenues and % debt servicing to revenues are 45% and 4.5% respectively.

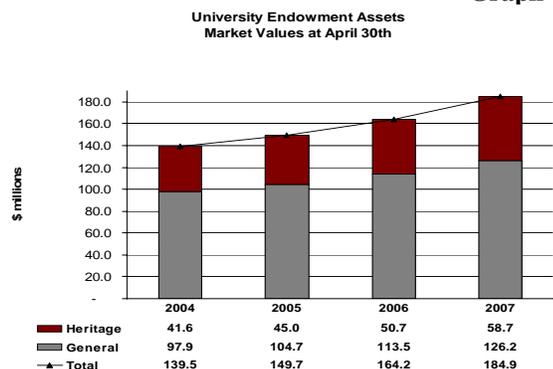
<sup>5</sup> Total external debt repayment excludes internal "sinking" fund investments (\$9.2 million, book value, in fiscal 2007) that have been set up to retire interest-only debt. Refer to Note 3 on Page 25 "Investments Held for Debt Repayment".

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**E: The Endowment Fund:**

The Endowment Fund (total investments of \$184.9 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 \$58.7 million) and the General Endowment Fund (investments of \$126.2 million). Refer to Graph G.

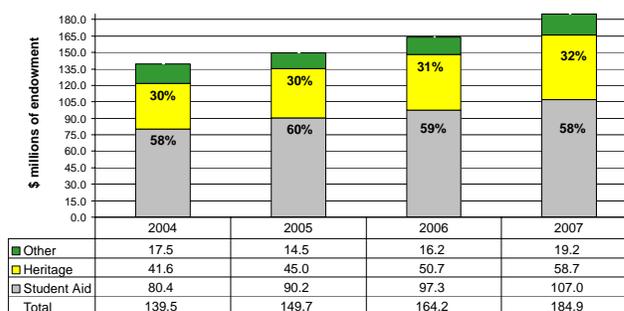
**Graph G**



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 58% of all University endowments are allocated to student assistance (refer to Graph H.)

**Allocation of University Endowments** **Graph H**

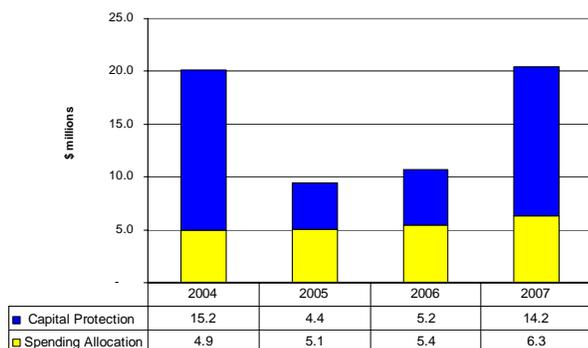


The University's **General Endowment Fund** management policy uses long-term investment assumptions in which investments are averaged over a moving four-year period in determining both investment performance and disbursement targets. The annual spending rate of the General Endowment Fund is restricted (4.5% in fiscal 2007). 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 \$20.7 million or 12.6% from \$164.2 million in 2006 to \$184.9 million in 2007. The increase in market value is the result of investment returns of 12.8% (7.4% in fiscal 2006) and net capital additions of \$8.7 million, less funds required for disbursements.
- Total 2007 investment income (realized and unrealized) from all endowments was \$20.5 million, reflecting annual investment returns (compared to a \$10.6 million return in 2006). In fiscal 2007, in accordance with the University's spending policy, approximately \$6.3 million of the total accumulated investment earnings were made available for disbursement. The remaining investment income of \$14.2 million was added to the accumulated earnings from prior years (refer to Graph I).

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**Graph I**  
 Annual Allocation of Endowment Investment Income  
 At April 30th



• **Endowment Contributions:**

Endowment Contributions record the impact on the Endowment Fund of investment income and net funds flows due to donations and disbursements. Total endowment contributions for fiscal 2007 were \$22.9 million (\$13.3 million in fiscal 2006). The increase of \$22.9 million recorded in fiscal 2007 consisted of:

- \$3.1 million (\$3.8 million in 2006) transferred to the Heritage Fund from real estate net proceeds;
- \$5.6 million (\$4.3 million in 2006) in additional capital, mainly from donations, received during the year;
- \$14.2 million (\$5.2 million in 2006) due to 2007 investment income endowed to provide for long-term capital protection in accordance with University policy;

**F: 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 principles, 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 23 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.

**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 2007 saw the continuation of this major capital construction program with purchases of \$68.7 million (\$100.7 million in fiscal 2006) in capital assets, \$26.1 million of which were related to the University’s major “SuperBuild”<sup>6</sup> 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.

Note: The University presents internal funds used for the temporary financing of capital projects in both the Capital Fund and Ancillary Enterprise Fund. Both of these items are reported on Statement 3 Page 20 of this report under Internally Restricted Net Assets in the appropriate fund (Capital or Ancillary).

<sup>6</sup> “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.

University of Guelph  
**SUMMARY OF FINANCIAL RESULTS**  
 For the fiscal year May 1, 2006 to April 30, 2007

In the fiscal 2007 financial statements, the net book value of capital assets increased by \$29.3 million (\$64.8 million in 2006), reflecting expenditures on capital and work-in-progress in several building/renovation projects of \$68.7 million (\$100.7 million in 2006; refer to Graph J) less capital asset amortization of \$39.4 million. These acquisitions will be funded through a combination of external grant or contract funding, e.g., the Ontario government's SuperBuild Growth Fund, donations, student residence user fees and designated funds in the University's Operating Budget.

**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 \$12.2 million) during the year;**

- \$1.6 million (\$1.7 million in 2006) 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<sup>7</sup>. Facilities renewal funding is normally allocated to deal with the highest priority items such as safety and emergency repairs;
- \$2.6 million of interest was earned on invested funds received from the federal government and OMAFRA for the Ontario Veterinary College (OVC) redevelopment project. The invested 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,

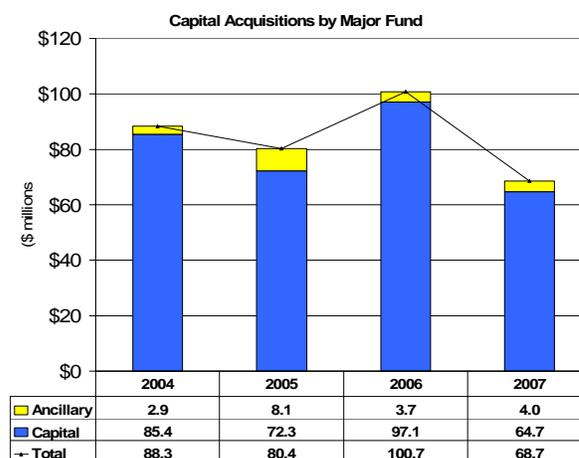
and to the end of fiscal 2007, \$3.8 million had been spent;

- \$2.0 million was received in donations designated for capital projects;
- \$1.5 million was transferred from the Heritage Fund to assist in funding the University's integrated data and voice communication system;
- \$3.8 million (\$20.8 million in 2006) was allocated from CFI and Ontario research infrastructure funds to support a number of ongoing capital projects;
- \$0.7 million from MTCU to support the first phase of graduate education expansion.

• **Capital acquisitions during the year (\$68.7 million, refer to Graph J) include:**

- \$26.1 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);
- \$23.9 million in major equipment purchases and major building renovations funded by both departmental transfers from the Operating Fund and external research grant/contract funding transferred from the Research and Trust Fund;
- \$4.5 million on the first year of a five-year critical deferred maintenance financing plan;
- A balance of \$14.2 million made up of multiple projects of less than \$2 million each.

**Graph J**



<sup>7</sup> In 2004, \$13.5 million of the debenture proceeds were allocated toward critical deferred maintenance projects. In 2007, the University received approval for a five year financing plan (2007-2011) for an additional \$127.7 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.

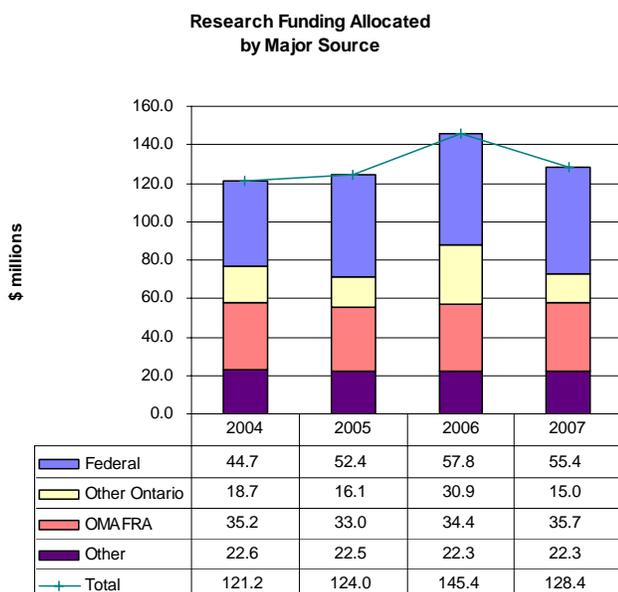
University of Guelph  
**SUMMARY OF FINANCIAL RESULTS**  
 For the fiscal year May 1, 2006 to April 30, 2007

**G: 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 35), 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<sup>8</sup> and CFI (Canada Foundation for Innovation), provincial infrastructure funding under a variety of programs and contracts from industry for sponsored-research projects. 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) allocated of \$128.4 million in fiscal 2007 (\$145.4 million in 2006). Refer to Graph K.

**Graph K**



<sup>8</sup> Includes NSERC (Natural Sciences and Engineering Research Council), SSHRC (Social Sciences and Humanities Research Council), CIHR (Canadian Institute of Health Research), CRC's (Canada Research Chair), and NCE's (Networks of Centres of Excellence)

Lower research funding in 2007 was the result of the decline in infrastructure funding for major capital projects received from the province of Ontario when compared to 2006 (when the University received funding for several large research projects from the province). Of the total research funding allocated, \$35.7 million was recorded in the Operating Fund as part of the agreement with the Ontario Ministry of Agriculture, Food and Rural Affairs. The balance of the funding (\$92.7 million compared to \$111.0 million in 2006) was received mainly from external sponsors as restricted revenue<sup>9</sup> for both operating and capital purposes. Because these research receipts are mainly restricted by the contributor, they are not recorded as revenue in the financial statements until spent. In 2007, there was a recorded increase of \$13.3 million in revenues (to \$86.2 million) in Other Grants and Contracts (where non-OMAFRA research revenue is recognized on the financial statements). This increase largely reflects the increase in expenditures funded from funds received in 2007 and prior years.

Additional major expenditures in this fund included scholarships and bursaries of \$11.0 million (\$10.8 million in fiscal 2006) funded from grants, annual donations and endowment investment income transferred to this fund from endowments for disbursement.

**H: The Ancillary Enterprises Fund:**

**The Ancillary Enterprises Fund** with revenues of \$66.9 million or 11.8% of total University revenues (2006 revenues of \$61.5 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 37.

<sup>9</sup> Research funding is restricted for specific purposes mainly by external sponsors, and under CICA accounting principles, 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 24 for the accounting policy on revenue recognition.)

University of Guelph  
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 For the fiscal year May 1, 2006 to April 30, 2007

In comparison to 2006, **total revenues** in the Ancillary Fund increased by 8.9% or \$5.5 million. Hospitality and Student Housing revenues increased in 2007 by \$2.4 million and \$2.6 million respectively (\$2.1 million decrease and \$1.1 million increase in 2006 respectively) both as a result of the increase in first-year students on campus and more students overall in residence. Other Ancillary Fund operations reported a combined increase in revenue of \$0.5 million.

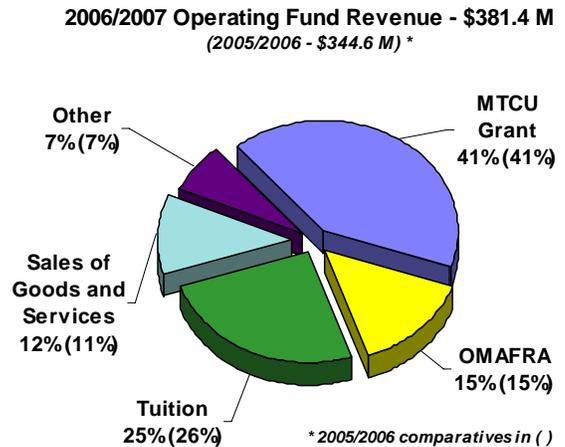
Ancillary **total expenses** increased by 4.6% or \$2.6 million over 2006. Hospitality and Student Housing expenses increased in 2007 by \$1.9 million and \$0.7 million respectively (\$1.7 million decrease and \$0.3 million decrease in 2006 respectively) primarily in cost of materials and operating expenses. This corresponds to the revenue increases as a result of more enrolment including more students in residence. This is offset by a \$0.1 million decrease 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 \$0.170 million which was covered from accumulated surpluses from prior years.

**I: 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 35, for details of Operating Fund revenues and expenses.)

**Operating Fund Revenues:** (total 2007 revenues of \$381.4 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**



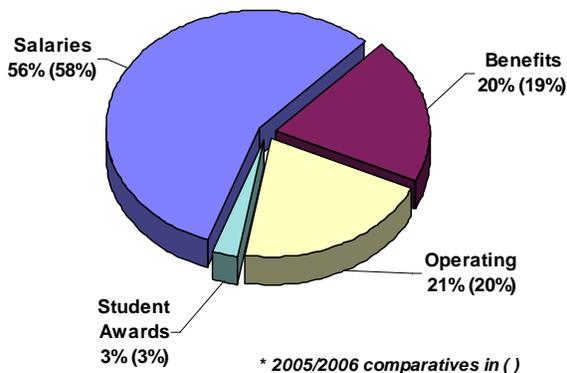
**OMAFRA Agreement:** Included in the Operating Fund is OMAFRA agreement activity (2007 total expenses of \$85.3 million). The OMAFRA agreement under which the University delivers research, education and laboratory testing programs, is unique in the Ontario university system. The University of Guelph and OMAFRA renewed the Agreement on April 1, 2002 for five years (scheduled to end in 2007). 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 \$54.9 million and related non-provincial revenues from the sale of goods and services and diploma and training enrolments of \$30.4 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 39 of the annual audited financial statements.

**Operating Fund Expenses:** (total of \$380.2 million, refer to Graph N) Salaries and benefits compose 76.3% of total Operating Fund expenses

University of Guelph  
**SUMMARY OF FINANCIAL RESULTS**  
 For the fiscal year May 1, 2006 to April 30, 2007

(77.1% in fiscal 2006). Salaries increased by 5.6% or \$11.5 million in 2007. This increase was due to the impacts of both negotiated settlements with employee groups and an increase in staff and faculty positions in 2007. The 2007 benefit expense in the Operating Fund increased by 14.5% or \$9.6 million reflecting a significant increase in post-employment costs. Overall, post-employment benefit costs incurred by the University in 2007 accounted for 62% (59% in 2006) of total benefit costs. Benefit costs incurred by the University for non-post-employment benefits increased by 4.7%.

**Graph N**  
**2006/2007 Operating Fund Expenses - \$380.2 M**  
*(2005/2006 - \$348.9 M) \**



Operating expenses within the Operating Fund increased by \$7.5 million or 10.5%. \$6.1 million of this increase pertained to OMAFRA agreement activities within the Operating Fund. ( related to increased responsibilities, by the University, for the physical plant operations of the research stations and regional campuses related to the OMAFRA contract.) Other operating expenses increased by \$3.5 million reflecting a general increase in the costs of supplies, services and equipment. Partially offsetting this increase, was a \$2.1 million recovery of prior year's expenses pertaining to the Guelph-Humber joint venture.

**Operating Fund Net Assets** – Net Assets in the Operating Fund consist of Internally Restricted<sup>10</sup> and Unrestricted funds recording the Operating fund's accumulated net financial results. In fiscal 2007, the Operating Fund experienced a \$14.5 million net decrease in Net Assets (\$19.3 million decrease in fiscal 2006). Consisting of the following:

**Operating Fund: Internally Restricted Net Assets: (Increase of \$7.6 million to \$35.1 million)**

This category records funds designated for specific Operating Fund purposes under either University policy (e.g., carry forwards of unspent departmental funds) or Board designated funds. The net increase of \$7.6 million in Internally Restricted Funds consists of:

- \$14.2 million of funds to be carried into fiscal 2008 in order to assist with meeting the University's 2007/2008 budget target. These funds were realized from an unexpected April 2007 one-time grant transfer from MTCU of \$12.7 million plus some general institutional accounts savings.
- Offsetting this increase was a \$6.0 million transfer out of the Stabilization Fund that was used to repay one-time restructuring costs, (Voluntary Early Retirement Programs of 2004/2005 and 2005/2006) effectively eliminating this fund as well as the deficit.
- In addition, \$0.6 million was transferred out of the restricted funds to assist with the purchase of Equipment and Supplies mainly by operational units (colleges and departments).

**Unrestricted Operating Fund Net Assets (increase in the deficit of \$22.1 million to \$78.4 million):**

After adjustments to Internally Restricted Funds, the Operating Fund Unrestricted deficit has increased by \$22.1 million. The unrestricted deficit consists of the following:

<sup>10</sup> Internally Restricted refers to funds that are designated for specific purposes by either the Board of Governors or University policy. A major example of Internally Restricted funds are operating budget funds that departments may "carry forward" into the following year for specific purposes. Refer to Statement 3 on page 20 for details on all Internal Restricted funds..

University of Guelph  
**SUMMARY OF FINANCIAL RESULTS**  
For the fiscal year May 1, 2006 to April 30, 2007

- \$34.6 million deficit increase represents the impact of 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 and the accounting accrual. The accumulated deficit balance in this fund is now \$79.3 million.
- \$8.6 million in prior years' deficit eliminated by using the Operating Fund's Stabilization Fund of \$6.0 million and \$2.6 million 2006/2007 net revenues. This deficit was the accumulated cost of earlier one-time restructuring programs incurred in 2004/2005 and 2005/2006.
- \$3.9 million (surplus) is the University's share of the 2006/2007 net income of the University of Guelph-Humber joint venture (refer to note 5 on Page 27). This surplus eliminated the deficit (created from accumulated start-up costs of the joint venture of \$3.1 million) leaving \$0.8 million in accumulated surplus.

The accumulated Unrestricted Deficit in the Operating Fund at the end of fiscal 2007 was \$78.4 million. Refer to Note 11 on Page 32.

**Budget to Actual Variances on the 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.

On the revenue side, the budget to actual variance indicates a large positive variance mainly the result of the large (\$12.7 million) transfer from MTCU in one-time provincial operating grants received in April 2007. These grants, along with \$1.5 million in other institutional net revenues have been designated (in Internally Restricted Net Assets) to assist in meeting the overall 2007/2008 budget target. The balance of the Total Funds Available have been applied under the University's policy of allowing departments to retain budget surpluses (and deficits) for future purposes (\$19.150 million) and to eliminate the accumulated costs (deficit) of earlier one-time restructuring programs incurred in 2004/2005 and 2005/2006.

Expenses recorded a positive variance of \$13.213 million mainly as the result of departments not spending all of their funds carried forward (\$20,941 million) from prior years (budgeted in the "Operating" budget category.)

**2006/2007 MTCU Operating Results**  
(in thousands of dollars)

	2006/07 Budget	2006/07 Actual	Variance
<b>Revenue</b>			
MTCU Grants	144,203	157,784	13,581
Tuition (Credit & Non-Credit)	91,558	93,199	1,641
Sales of Goods and Services	16,457	18,047	1,590
Investment Income	2,042	2,063	21
Other Revenue	11,698	15,051	3,353
Institutional Recoveries	10,757	10,557	(200)
Research OH Cost Rec & Rev	24,987	25,698	711
<b>Total Revenue</b>	<b>301,702</b>	<b>322,399</b>	<b>20,697</b>
<b>Expenses</b>			
Salaries	174,736	179,319	(4,583)
Benefits	39,138	39,122	16
Operating	67,010	49,513	17,497
Utilities	19,848	19,959	(111)
Scholarships and Bursaries	9,943	9,719	224
University Contingency	168		168
Other Institutional Transfers	9,800	9,798	2
<b>Total Expenses</b>	<b>320,643</b>	<b>307,430</b>	<b>13,213</b>
Revenue Less Expenses	(18,941)	14,969	#1 33,910
Add: Int Restricted Net Assets - Beginning			
From Departments	20,941	20,941	-
From Stabilization Fund		6,000	6,000
<b>Total Funds Available</b>	<b>2,000</b>	<b>41,910</b>	<b>39,910</b>
Less: Int Restricted Net Assets - Ending			
For Budget Relief in 2007/2008		14,200	14,200
For Departments		19,150	19,150
Net Repayment of Restructuring Costs	2,000	8,560	6,560
Restructuring Costs - Opening	(8,560)	(8,560)	-
Restructuring Costs - Closing	(6,560)	0	6,560

#1 Operating Fund - Change in Net Assets	\$ thousands
Revenue Less Expenses (MTCU Operating only. Refer to Table above):	14,969
Additional Items Included in the Operating Fund (Financial Statements):	
○ Guelph Humber (University's share of 2006/2007 surplus):	3,905
○ Employee Benefits	(33,372)
○ Net Increase(Decrease) in Net Assets (per Schedule #1):	(14,498)

University of Guelph  
**SUMMARY OF FINANCIAL RESULTS**  
 For the fiscal year May 1, 2006 to April 30, 2007

**J: Summary of Net Assets - All University Funds:**

Total University income received in fiscal 2007 from all funds was \$567.0 million (\$510.8 million in fiscal 2006). Total expenses were \$569.9 million (\$521.7 million in fiscal 2006). The net of revenues less expenses was a deficit of \$2.9 million (\$10.9 million net deficit in 2006). In order to complete the total calculation of changes in Net Assets, the \$19.1 million donations and endowed investment income is added. The resulting \$16.2 million net increase in Net Assets was allocated in accordance with external restrictions, Board policy, and future budget and expenditure requirements. The following notes and tables summarize the distribution of changes to Net Assets based on fiscal 2007 financial results:

- Invested in Capital Assets – an increase of \$27.1 million (2006, increase of \$31.3 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 \$22.9 million (2006, \$13.3 million increase) records the net change in endowments due to \$19.8 million in new donations, contributions and capitalized interest, plus \$3.1 million in net proceeds from real estate sales. (Note: The Endowed Assets of \$173.2 million is that portion of endowed investments of \$184.9 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 20. In total, the University’s internally restricted net assets decreased by \$15.8 million (2006, decrease of \$24.2 million). This net decrease was composed of an increase in use of internal funds

for the temporary financing of capital projects (\$27.9 million) offset by additional funds of \$12.1 million across all funds designated for specific purposes.

- Unrestricted Surplus (Deficit) – reports the accumulated net income or deficit of University operations after adjustments for internal restrictions on assets under University policy. In total, the University’s Unrestricted Deficit increased by \$18.1 million to \$67.6 million. Components of this increase were:
  - Operating Fund deficit of \$22.1 million :
    - \$34.6 million deficit from the accounting accrual (non-cash expense) of post-employment benefits,
    - less the elimination of a \$8.6 million deficit from previous years’ employee restructuring programs and
    - less an increase of \$3.9 million in surplus: the University’s share of operations of the University of Guelph-Humber joint venture
  - \$4.0 million in net revenues from the combined ancillary unit operations.

The following table summarizes total University financial results for fiscal year 2006/2007:

**2006/2007 UNIVERSITY RESULTS**  
**Summary of All Funds (\$millions)**

	<b>Opening</b>	<b>2006/</b>	<b>Closing</b>
	<b>Assets</b>	<b>2007</b>	<b>Assets</b>
	<b>(Deficit)</b>	<b>Results</b>	<b>(Deficit)</b>
Total University Revenues		567.0	
Total University Expenses		569.9	
Revenues Less Expenses		(2.9)	
Add: Endowment Contributions: <i>recorded as a direct increase(decrease) in Fund Balance.</i>		19.1	
Equals: Increase (decrease) in Net Assets		16.2	
<b>UNIVERSITY NET ASSETS:</b>			
Invested In Capital Assets	101.4	27.1	128.5
Endowed Funds	150.3	22.9	173.2
Internally Restricted (all funds)	40.3	(15.7)	24.6
Unrestricted - Ancillaries	6.8	4.0	10.8
Unrestricted - Operating Fund	(56.3)	(22.1)	(78.4)
Total Net Assets	242.5	16.2	258.7

October 4, 2007

## **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, 2007 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, 2007 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, Licensed Public Accountants**

**UNIVERSITY OF GUELPH**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT APRIL 30, 2007**  
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
<b><u>ASSETS</u></b>		
<b>Current</b>		
Cash and Short-term Investments	86,169	72,191
Accounts Receivable	25,049	20,309
Inventories	3,352	3,094
Prepaid Expenses	786	1,281
	<u>115,356</u>	<u>96,875</u>
<b>Long-term</b>		
Deferred Pension Costs (Schedule 4)	40,419	40,275
Real Estate Projects in Progress	356	293
Long-term Receivables	238	263
Deferred Charge (Note 14)	817	840
Investments (Note 3)	277,853	277,598
	<u>319,683</u>	<u>319,269</u>
Capital Assets (Note 6)	550,752	521,444
	<u><b>985,791</b></u>	<u><b>937,588</b></u>
<b><u>LIABILITIES</u></b>		
<b>Current</b>		
Accounts Payable and Accrued Charges	50,557	53,375
Current Portion of Long-term Debt (Note 7)	1,960	5,527
Current Portion of Deferred Revenue and Contributions (Note 8)	13,680	13,935
	<u>66,197</u>	<u>72,837</u>
Employee Future Benefits (Schedule 4)	90,613	70,306
Long-term Debt (Note 7)	157,347	153,080
Deferred Revenue and Contributions (Note 8)	149,979	137,379
Deferred Capital Contributions (Note 9)	262,954	261,437
	<u><b>727,090</b></u>	<u><b>695,039</b></u>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets (Note 10)	128,491	101,400
Endowed (Note 12)	173,267	150,347
Internally Restricted (Statement 3)	24,565	40,326
Unrestricted Surplus (Deficit) (Note 11)	(67,622)	(49,524)
	<u><b>258,701</b></u>	<u><b>242,549</b></u>
	<u><b>985,791</b></u>	<u><b>937,588</b></u>

**"Signed"**

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D. Derry Chair

**"Signed"**

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A. Summerlee President

**UNIVERSITY OF GUELPH**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED APRIL 30, 2007**

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
<b>REVENUE</b>		
Ministry of Training, Colleges and Universities	159,354	141,733
Ministry of Agriculture, Food and Rural Affairs (Schedule 3)	54,885	50,226
Tuition (Credit and Non-Credit)	96,531	88,658
Donations (Note 13)	5,055	7,367
Sales of Goods and Services	110,722	102,395
Investment Income (Note 4)	10,489	9,638
Other Grants and Contracts	86,219	72,942
Amortization of Deferred Capital Contributions (Note 9)	20,901	18,670
Other	22,888	19,160
	<u>567,044</u>	<u>510,789</u>
<b>EXPENSES</b>		
Salaries	265,245	250,042
Benefits	82,309	72,239
Travel	13,390	12,559
Operating	133,189	118,154
Minor Renovations and Repairs	3,968	3,335
Interest	10,635	10,523
Scholarships and Bursaries	21,830	18,912
Capital Asset Amortization	39,378	35,930
	<u>569,944</u>	<u>521,694</u>
Revenue Less Expenses	(2,900)	(10,905)
Endowment Contributions (Note 12)	19,052	8,967
Net Increase (Decrease) in Net Assets	16,152	(1,938)
Net Assets, Beginning of Year	<u>242,549</u>	<u>244,487</u>
Net Assets, End of Year	<u>258,701</u>	<u>242,549</u>

**UNIVERSITY OF GUELPH**  
**STATEMENT OF CHANGES IN**  
**INTERNALLY RESTRICTED NET ASSETS**  
**FOR THE YEAR ENDED APRIL 30, 2007**

(in thousands of dollars)

<b>OPERATING FUND</b>	<u>Balance, Beginning of Year</u>	<u>Transfer To (From) Internally Restricted</u>	<u>Balance, End of Year</u>
Equipment and Supplies	20,941	(604)	20,337
Self Insured Losses	550		550
Stabilization Fund	6,000	(6,000)	
Budget 2007/08		14,200	14,200
	<u>27,491</u>	<u>7,596</u>	<u>35,087</u>
<b>CAPITAL FUND</b>			
Capital Projects and Renovations	6,888	(276)	6,612
Minor Renovations	2,262	(593)	1,669
Sinking Fund	1,446	1,007	2,453
Internally Financed Projects	(12,723)	(28,284)	(41,007)
	<u>(2,127)</u>	<u>(28,146)</u>	<u>(30,273)</u>
<b>ANCILLARY ENTERPRISES</b>			
Real Estate Division	53	(53)	
Real Estate Division Internally Financed Projects	(2,643)	1,867	(776)
Student Housing Services	500		500
Student Housing Sinking Fund	6,290	462	6,752
Student Housing Internally Financed Projects	(14,869)	(1,517)	(16,386)
Hospitality Services Internally Financed Projects	(3,231)	68	(3,163)
University Centre	222	10	232
	<u>(13,678)</u>	<u>837</u>	<u>(12,841)</u>
<b>RESEARCH AND TRUST FUND</b>			
Research and Trust	<u>28,640</u>	<u>3,952</u>	<u>32,592</u>
<b>TOTAL</b>	<u><u>40,326</u></u>	<u><u>(15,761)</u></u>	<u><u>24,565</u></u>

**UNIVERSITY OF GUELPH  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED APRIL 30, 2007**

(in thousands of dollars)

	<u>2007</u>	<u>2006</u>
<b>OPERATING ACTIVITIES</b>		
Increase (Decrease) in Net Assets (Statement 2)	16,152	(1,938)
Add (Deduct) Non-cash Items:		
Capital Asset Amortization (Statement 2)	39,378	35,930
Amortization of Deferred Capital Contributions (Statement 2)	(20,901)	(18,670)
Unrealized (Gain) Loss on Investments	(8,907)	(7,561)
(Increase) Decrease in Long-term Receivables	25	25
Decrease in Mortgage Receivable		2,000
(Increase) Decrease in Deferred Pension Costs	(144)	15,685
Increase in Employee Future Benefits	20,307	16,782
(Increase) Decrease in Non-cash Working Capital	(7,384)	11,563
	<u>38,526</u>	<u>53,816</u>
<b>FINANCING ACTIVITIES</b>		
Decrease in Deferred Charges	23	23
Increase in Long-term Debt	6,857	
Repayment of Long-term Debt	(6,157)	(2,590)
Deferred Capital Contributions Received During the Year	22,418	53,064
Increase in Deferred Contributions	12,345	25,181
	<u>35,486</u>	<u>75,678</u>
<b>INVESTING ACTIVITIES</b>		
(Acquisition) Disposal of Investments	8,652	(7,420)
(Acquisition) Disposal of Capital Assets (Note 6)	(68,686)	(100,750)
	<u>(60,034)</u>	<u>(108,170)</u>
Change in Cash and Short-term Investments	13,978	21,324
<b>CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF THE YEAR</b>	<u>72,191</u>	<u>50,867</u>
<b>CASH AND SHORT-TERM INVESTMENTS, END OF THE YEAR (Statement 1)</b>	<u><u>86,169</u></u>	<u><u>72,191</u></u>

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

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**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 and Transportation Planning  
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.

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

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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

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

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**(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.

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(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 (2007 \$14; 2006 \$2) 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**

	<u>Book Value</u>		<u>Market Value</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Short-term Notes and Bonds	71,789	95,681	71,604	94,380
Investments Held for Debt Repayment	9,205	7,737	9,861	8,369
Guelph-Humber	843		843	
Research & Trust Fund				
OMAFRA Post Retirement	2,235	2,255	5,070	4,552
OMAFRA Early Retirement	2,662	2,685	6,050	5,430
Total Research & Trust Fund	4,897	4,940	11,120	9,982
General and Heritage Endowment Funds				
Cash and Short-term Notes	2,919	3,104	2,763	3,104
Canadian Equities	17,205	26,743	32,809	47,420
Canadian Pooled Equity	1,936	2,710	2,403	3,479
Canadian Fixed Income	40,662	37,332	40,953	37,502
Foreign Equities	90,853	55,722	100,726	49,705
Foreign Pooled Equity	3,542	18,534	4,602	22,352
Foreign Fixed Income	645	645	640	636
	<u>157,762</u>	<u>144,790</u>	<u>184,896</u>	<u>164,198</u>
Total Investments	<u>244,496</u>	<u>253,148</u>	<u>278,324</u>	<u>276,929</u>

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

<b>Investments</b>	<u>2007</u>	<u>2006</u>
Short-term Notes and Bonds (Book)	71,789	95,681
Investments Held for Debt Repayment (Book)	9,205	7,737
Guelph-Humber	843	-
Research & Trust Fund (Market)	11,120	9,982
General and Heritage Endowment Funds (Market)	184,896	164,198
	<u>277,853</u>	<u>277,598</u>

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(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:

	<u>Book Value</u>		<u>Market Value</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Endowment	108,356	101,031	126,194	113,503
Heritage Fund	49,406	43,759	58,702	50,695
	<u>157,762</u>	<u>144,790</u>	<u>184,896</u>	<u>164,198</u>

**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.

<b>Investment Income</b>	<u>Operations</u>	<u>Endowment</u>	<u>Total 2007</u>	<u>Total 2006</u>
Net Realized Investment Income	5,931	12,749	18,680	10,227
Increase in Unrealized Investment Income	1,954	7,726	9,680	6,752
Total Investment Income	7,885	20,475	28,360	16,979
Increase in Accumulated Endowed Investment Income		(14,174)	(14,174)	(5,218)
Investment Income Available for Expenditure	6,301	(6,301)	-	-
Net (Increase) Decrease in Deferred Contributions	(3,697)		(3,697)	(2,123)
Total	<u>10,489</u>	<u>-</u>	<u>10,489</u>	<u>9,638</u>

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(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, student aid and course delivery. The University has advanced funds equal to the cost of these services to the Joint Venture. At April 30, 2007, there is a total advance of \$4,952 (2006 \$4,284) 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 collect on these advanced funds as the Joint Venture continues to accumulate a surplus.

The Joint Venture has not been consolidated in the University financial statements however the University recognized 50% of the total net operating results of the Joint Venture as an investment and revenue. Separately audited financial statements are prepared for the Joint Venture (year-ended March 31, 2007). The total cumulative surplus for the University is \$843 (2006 \$3,062 cumulative deficit).

A financial summary of the joint venture for the fiscal years ended March 31, 2006 and 2007 is as follows:

<b>University of Guelph - Humber</b>	<u><b>2007</b></u>	<u><b>2006</b></u>
Financial Position:		
Total Assets	11,789	8,597
Total Liabilities	<u>10,103</u>	<u>14,792</u>
Total Net Assets	<u><u>1,686</u></u>	<u><u>(6,195)</u></u>
Results of Operations:		
Total Revenue	26,280	19,736
Total Expenses	<u>18,399</u>	<u>17,925</u>
Excess of Revenue over Expenses	<u><u>7,881</u></u>	<u><u>1,811</u></u>

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

**6. CAPITAL ASSETS**

<b>a) Details</b>	<b>2007</b>		<b>2006</b>	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	8,761		8,761	8,761
Land improvements	24,695	9,078	15,617	15,847
Buildings	608,619	206,863	401,756	320,430
Furniture and equipment	197,562	106,717	90,845	86,608
Construction in progress	21,001		21,001	72,663
Computer equipment	28,791	20,620	8,171	13,097
Library and art collection	24,154	19,553	4,601	4,038
	<u>913,583</u>	<u>362,831</u>	<u>550,752</u>	<u>521,444</u>

**b) Change in Net Book Value**

	<b>2007</b>	<b>2006</b>
Balance, beginning	521,444	456,624
Purchase of capital assets	68,686	100,750
Less: Amortization of capital assets	(39,378)	(35,930)
Balance, ending	<u>550,752</u>	<u>521,444</u>

**c) Insured Values**

	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	Net Book Value	Insured Value	Net Book Value	Insured Value
Buildings	<u>401,756</u>	<u>1,125,112</u>	<u>320,430</u>	<u>1,095,550</u>
Furniture, equipment and library books	<u>103,617</u>	<u>850,305</u>	<u>103,743</u>	<u>837,966</u>
Art and artifacts collection	<u>1</u>	<u>11,865</u>	<u>1</u>	<u>11,796</u>

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

**7. a) LONG-TERM DEBT**

	Interest Rate %	Issue Date	Due Date	<u>2007</u> Total	<u>2006</u> Total
<b>Series A Unsecured Debenture</b>	6.24	11-Oct-02	10-Oct-42	<u>100,000</u>	<u>100,000</u>
<b>Banker's Acceptance</b>					
Canadian Imperial Bank of Commerce	7.88	1-May-96	1-May-06		3,539
Canadian Imperial Bank of Commerce	4.96	1-May-06	2-May-16	5,557	
Canadian Imperial Bank of Commerce	5.89	6-Jul-98	6-Jul-07	282	1,372
Bank of Montreal	7.01	16-Oct-00	16-Jun-25	<u>31,600</u>	<u>32,100</u>
				<u>37,439</u>	<u>37,011</u>
<b>Leases payable</b>					
Ontario Student Housing Corp.	6.13	1-Jan-69	1-Dec-18	630	665
Canada Mortgage and Housing Corp.	5.88	1-Jan-69	1-Dec-18	5,554	5,865
Applied Biosystems	4.75	2-Dec-06	1-Dec-11	670	
				<u>6,854</u>	<u>6,530</u>
<b>Mortgages payable</b>					
Canada Mortgage and Housing Corp.	5.38	1-Jan-67	1-Dec-16	709	761
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	<u>13,080</u>	<u>13,080</u>
				<u>15,014</u>	<u>15,066</u>
				159,307	158,607
Current Portion				<u>(1,960)</u>	<u>(5,527)</u>
				<u>157,347</u>	<u>153,080</u>

During the current fiscal year, the University of Guelph made principal repayments in the amount of \$6,157 (2006 \$2,590) and incurred \$10,635 (2006 \$10,523) in interest expense from long-term debt.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	1,960	10,582	12,542
2009	1,710	10,446	12,156
2010	2,970	10,348	13,318
2011	1,781	10,093	11,874
2012	<u>14,711</u>	<u>9,962</u>	<u>24,673</u>
	<u>23,132</u>	<u>51,431</u>	<u>74,563</u>
Thereafter	<u>136,175</u>		
	<u>159,307</u>		

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(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.

The notional amount of the interest rate swap and the net unrealized gain (loss) on these contracts outstanding at April 30, 2007 are:

	<u>Due Date</u>	<u>Notional Amount</u>	<u>Gain/(Loss)</u>
Canadian Imperial Bank of Commerce	6-Jul-07	282	(1)
Canadian Imperial Bank of Commerce	2-May-16	5,550	(61)
Bank of Montreal	16-Jun-25	30,538	(6,269)

**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.

<b>a) Deferred Revenue</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Prepaid Leases, Fees and Grants	14,374	13,824
OMAFRA Advance	11,275	11,360
Other	5,608	1,702
	<u>31,257</u>	<u>26,886</u>
Less: Current Deferred Revenue	<u>(13,680)</u>	<u>(13,935)</u>
	<u>17,577</u>	<u>12,951</u>
<b>b) Deferred Contributions</b>		
Changes in Deferred Contributions are as follows:		
Balance, beginning of year	124,428	103,985
Contributions received during the year	119,751	155,864
Contributions recognized in the year	<u>(111,777)</u>	<u>(135,421)</u>
Balance, end of year	<u>132,402</u>	<u>124,428</u>
Total Deferred Revenue and Contributions	<u>149,979</u>	<u>137,379</u>

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(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.

<b>Deferred Capital Contributions</b>	<u><b>2007</b></u>	<u><b>2006</b></u>
Changes in Deferred Capital Contributions are as follows:		
Balance, beginning of year	261,437	227,043
Contributions received during the year	22,418	53,064
Amortization of deferred capital contributions	<u>(20,901)</u>	<u>(18,670)</u>
Balance, end of year	<u><u>262,954</u></u>	<u><u>261,437</u></u>

**10. INVESTED IN CAPITAL ASSETS**

	<u><b>2007</b></u>	<u><b>2006</b></u>
Capital Assets (Net Book Value)	550,752	521,444
Less:		
Long-term Debt	(159,307)	(158,607)
Deferred Capital Contributions	<u>(262,954)</u>	<u>(261,437)</u>
Invested in Capital Assets	<u><u>128,491</u></u>	<u><u>101,400</u></u>

**Change in Invested in Capital Assets**

	<u><b>2007</b></u>	<u><b>2006</b></u>
Purchase of Capital Assets	68,686	100,750
Debt Payment	6,157	2,590
Increase in Deferred Capital Contributions	(22,418)	(53,064)
Amortization Expense	(39,378)	(35,930)
Deferred Capital Contribution Amortization	20,901	18,670
Increase in Long-term Debt	(6,857)	
Use of Debenture Debt		<u>(1,716)</u>
	<u><u>27,091</u></u>	<u><u>31,300</u></u>

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

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**11. UNRESTRICTED SURPLUS (DEFICIT)**

	<b>2007</b>	<b>2006</b>
<b>Operating Fund</b>		
Accrual for Employee Future Benefits	(79,248)	(44,689)
Voluntary Early Retirement Programs:		
2004/2005 Program	-	(5,974)
2005/2006 Program	-	(4,586)
Repayment	-	2,000
	-	(8,560)
University of Guelph-Humber (Note 5)	843	(3,062)
	(78,405)	(56,311)
<b>Ancillary Enterprises</b> (Schedule 2)	10,783	6,787
Balance, end of year	(67,622)	(49,524)

The University's total Unrestricted Surplus (Deficit) for the Operating Fund at the end of fiscal 2006/2007 shows a net deficit of \$78,405 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)
- **University of Guelph-Humber:** This surplus represents the University's share of the total net surplus of the University's joint venture with The Humber College Institute of Technology and Advanced Learning.

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

**12. CHANGES IN NET ASSETS – ENDOWED**

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.

	<b>Externally Restricted</b>	<b>Board Restricted</b>	<b>Total 2007</b>	<b>Total 2006</b>
Investment income (loss) on endowments	17,956	2,519	20,475	10,656
Less: available for expenditure	(5,462)	(839)	(6,301)	(5,438)
Increase (Decrease) in accumulated endowed investment income	12,494	1,680	14,174	5,218
Contributions received during year	4,591	287	4,878	3,749
Endowment Contributions	17,085	1,967	19,052	8,967
Transfers in	3,868		3,868	4,282
Net Increase (Decrease) in Net Assets	20,953	1,967	22,920	13,249
Net assets, beginning of year	131,165	19,182	150,347	137,098
Net assets, end of year	152,118	21,149	173,267	150,347

**13. DONATIONS**

	<b>2007</b>	<b>2006</b>
Donations received during the year	12,289	11,390
Donations recorded as a direct addition to endowments	(3,779)	(3,298)
Donations recorded as deferred capital contributions	(3,455)	(725)
Donations recognized as revenue	5,055	7,367

**14. 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 2007 are \$23 (2006 \$23).

**15. COMMITMENTS**

Costs to complete major capital projects in progress as at April 30, 2007 are estimated to be \$9,600 (2006 \$47,218) and will be funded by government grants, gifts and University resources.

**16. 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 renewed to January 1, 2013.

**UNIVERSITY OF GUELPH**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**  
(in thousands of dollars)

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- 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 entity, whereby the University leases the assets to the entity.

As part of this agreement, the University has guaranteed a loan of up to \$2,500 for the legal entity. As of April 30, 2007 the entity borrowed \$1,000.

**17. 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, 2007**

(in thousands of dollars)

	<b>OPERATING FUND</b>	<b>CAPITAL FUND</b>	<b>ANCILLARY ENTERPRISES</b> (Schedule 2)	<b>RESEARCH &amp; TRUST FUND</b>	<b>ENDOWMENT FUND</b>	<b>TOTAL 2007</b>	<b>TOTAL 2006</b>
<b>REVENUE</b>							
Ministry of Training, Colleges and Universities	157,784	1,403	167			159,354	141,733
Ministry of Agriculture, Food and Rural Affairs	54,885					54,885	50,226
Tuition (Credit and Non-credit)	96,531					96,531	88,658
Donations (Note 13)	16			5,039		5,055	7,367
Sales of Goods and Services	44,932		65,790			110,722	102,395
Investment Income (Note 4)	2,063	348	435	7,643		10,489	9,638
Other Grants and Contracts	2,753			83,466		86,219	72,942
Amortization of Deferred Capital Contributions (Note 9)		20,744	157			20,901	18,670
Other	22,484	25	379			22,888	19,160
	<u>381,448</u>	<u>22,520</u>	<u>66,928</u>	<u>96,148</u>	<u>-</u>	<u>567,044</u>	<u>510,789</u>
<b>EXPENSES</b>							
Salaries	214,691		13,538	37,016		265,245	250,042
Benefits	75,469		2,722	4,118		82,309	72,239
Travel	7,040		155	6,195		13,390	12,559
Operating	80,951	100	23,541	28,597		133,189	118,154
Minor Renovations and Repairs		3,131	837			3,968	3,335
Interest		6,301	4,334			10,635	10,523
Scholarships and Bursaries	10,785			11,045		21,830	18,912
Institutional (Recovery) Charges	(8,763)		8,763			-	-
Capital Asset Amortization		35,428	3,950			39,378	35,930
	<u>380,173</u>	<u>44,960</u>	<u>57,840</u>	<u>86,971</u>	<u>-</u>	<u>569,944</u>	<u>521,694</u>
Revenue Less Expenses	1,275	(22,440)	9,088	9,177	-	(2,900)	(10,905)
Endowment Contributions (Note 12)					19,052	19,052	8,967
Interfund Transactions	(15,773)	22,285	(5,155)	(5,225)	3,868	-	-
<b>Net Increase (Decrease) in Net Assets</b>	<u>(14,498)</u>	<u>(155)</u>	<u>3,933</u>	<u>3,952</u>	<u>22,920</u>	<u>16,152</u>	<u>(1,938)</u>
Composed Of:							
Net Increase (Decrease) in Invested in Capital Assets		27,991	(900)			27,091	31,300
Net Increase (Decrease) in Endowments					22,920	22,920	13,249
Net Increase (Decrease) in Internally Restricted	7,596	(28,146)	837	3,952		(15,761)	(24,179)
Net Increase (Decrease) in Unrestricted	(22,094)		3,996			(18,098)	(22,308)
Net Increase (Decrease) in Net Assets	<u>(14,498)</u>	<u>(155)</u>	<u>3,933</u>	<u>3,952</u>	<u>22,920</u>	<u>16,152</u>	<u>(1,938)</u>

**UNIVERSITY OF GUELPH**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED APRIL 30, 2007**

(in thousands of dollars)

	<u>OPERATING FUND</u>	<u>CAPITAL FUND</u>	<u>ANCILLARY ENTERPRISES</u> (Schedule 2)	<u>RESEARCH &amp; TRUST FUND</u>	<u>ENDOWMENT FUND</u>	<u>TOTAL 2007</u>	<u>TOTAL 2006</u>
Net Assets, Beginning of Year	(28,820)	73,257	19,125	28,640	150,347	242,549	244,487
Net Increase (Decrease) in Net Assets	(14,498)	(155)	3,933	3,952	22,920	16,152	(1,938)
Net Assets, End of Year	<u>(43,318)</u>	<u>73,102</u>	<u>23,058</u>	<u>32,592</u>	<u>173,267</u>	<u>258,701</u>	<u>242,549</u>
<b>Net Assets Components:</b>							
Invested in Capital Assets		103,375		25,116		128,491	101,400
Endowed					173,267	173,267	150,347
Internally Restricted	35,087	(30,273)	(12,841)	32,592		24,565	40,326
Unrestricted Surplus (Deficit)	<u>(78,405)</u>		<u>10,783</u>			<u>(67,622)</u>	<u>(49,524)</u>
Net Assets, End of Year, Surplus (Deficit)	<u>(43,318)</u>	<u>73,102</u>	<u>23,058</u>	<u>32,592</u>	<u>173,267</u>	<u>258,701</u>	<u>242,549</u>

**UNIVERSITY OF GUELPH**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR ANCILLARY ENTERPRISES**  
**FOR THE YEAR ENDED APRIL 30, 2007**

(in thousands of dollars)

	<b>HOSPITALITY SERVICES</b>	<b>REAL ESTATE</b>	<b>STUDENT HOUSING SERVICES</b>	<b>PARKING</b>	<b>UNIVERSITY CENTRE</b>	<b>TOTAL 2007</b>	<b>TOTAL 2006</b>
<b>REVENUE</b>	30,914	4,701	26,959	2,382	1,972	66,928	61,458
<b>EXPENSES</b>							
Cost of Materials	13,325				363	13,688	12,423
Salaries	8,631	227	3,638	255	787	13,538	13,187
Benefits	1,715	58	726	65	158	2,722	2,615
Institutional Charges	1,701		6,419	199	444	8,763	8,666
Operating	4,271	652	4,296	267	367	9,853	9,044
Travel	49	12	78	9	7	155	147
Minor Renovations and Repairs	99		667	71		837	1,021
Interest		274	4,060			4,334	4,177
Capital Asset Amortization	453	493	2,866	122	16	3,950	3,991
Total Operating Expenses	30,244	1,716	22,750	988	2,142	57,840	55,271
Revenue Less Expenses	670	2,985	4,209	1,394	(170)	9,088	6,187
Interfund Transactions	(350)	(2,569)	(741)	(1,742)	247	(5,155)	(5,488)
<b>Net Increase (Decrease) in Net Assets</b>	320	416	3,468	(348)	77	3,933	699
Composed Of:							
Net Increase (Decrease) in Invested in Capital Assets	237	(2,450)	1,110	149	54	(900)	20,701
Net Increase (Decrease) in Internally Restricted	68	1,814	(1,055)		10	837	(22,577)
Net Increase (Decrease) in Unrestricted	15	1,052	3,413	(497)	13	3,996	2,575
Net Increase (Decrease) in Net Assets	320	416	3,468	(348)	77	3,933	699

**UNIVERSITY OF GUELPH**  
**STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**  
**FOR ANCILLARY ENTERPRISES**  
**FOR THE YEAR ENDED APRIL 30, 2007**

(in thousands of dollars)

	<u>HOSPITALITY</u> <u>SERVICES</u>	<u>REAL</u> <u>ESTATE</u>	<u>STUDENT</u> <u>HOUSING</u> <u>SERVICES</u>	<u>PARKING</u>	<u>UNIVERSITY</u> <u>CENTRE</u>	<u>TOTAL</u> <u>2007</u>	<u>TOTAL</u> <u>2006</u>
Net Assets, Beginning of Year	5,080	11,278	(1,759)	3,876	650	19,125	18,426
Net Increase (Decrease) in Net Assets	320	416	3,468	(348)	77	3,933	699
Net Assets, End of Year	<u>5,400</u>	<u>11,694</u>	<u>1,709</u>	<u>3,528</u>	<u>727</u>	<u>23,058</u>	<u>19,125</u>
Net Assets Components:							
Invested in Capital Assets *	8,584	8,448	4,740	3,042	302	25,116	26,016
Internally Restricted	(3,163)	(776)	(9,134)		232	(12,841)	(13,678)
Unrestricted Surplus (Deficit)**	(21)	4,022	6,103	486	193	10,783	6,787
Net Assets, End of Year, Surplus (Deficit)	<u>5,400</u>	<u>11,694</u>	<u>1,709</u>	<u>3,528</u>	<u>727</u>	<u>23,058</u>	<u>19,125</u>

\* 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.

**UNIVERSITY OF GUELPH**  
**STATEMENT OF OMAFRA REVENUES AND EXPENSES BY OBJECT**  
**FOR THE YEAR ENDED APRIL 30, 2007**

(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 Ridgeway, Ontario and a laboratory services' facility. This agreement was extended to March 31, 2008. The following figures reflect the revenues and expenses of the OMAFRA agreement for 2006/2007.

	OAC Guelph	OAC Alfred	OAC Kemptville	OAC Ridgeway	OVC Guelph	Other Colleges Guelph	Lab Services Division	Stations & Academic Services Guelph	Institutional Revenue & Expenses	Total OMAF 2007	Total OMAF 2006
<b>Income</b>											
Provincial	9,801	2,092	5,602	5,413	6,906	1,361	10,834	6,391	6,485	54,885	50,226
Tuition	247	331	1,737	1,017						3,332	3,296
Sales of Goods and Services	2	368	2,077	3,655			11,894	2,362		20,358	19,348
Other	14	1,001	2,099	1,470			15	2,100		6,699	4,369
<b>Total Income</b>	<b>10,064</b>	<b>3,792</b>	<b>11,515</b>	<b>11,555</b>	<b>6,906</b>	<b>1,361</b>	<b>22,743</b>	<b>10,853</b>	<b>6,485</b>	<b>85,274</b>	<b>77,239</b>
<b>Expenses</b>											
Salaries	3,985	1,865	5,161	5,350	1,915	378	11,492	4,111		34,257	33,279
Benefits	821	404	1,145	1,255	453	47	2,715	684		7,524	7,488
<b>Total Personnel Costs</b>	<b>4,806</b>	<b>2,269</b>	<b>6,306</b>	<b>6,605</b>	<b>2,368</b>	<b>425</b>	<b>14,207</b>	<b>4,795</b>		<b>41,781</b>	<b>40,767</b>
Travel	163	98	125	87	265	32	156	39		965	887
Operating	330	1,500	4,853	4,663	1,082	370	7,262	5,768		25,828	19,730
Equipment	152	25	164	169	1	24	1,074	467		2,076	1,902
Support for Faculty Costs	4,694				2,807	414				7,915	7,915
Service Costs									6,485	6,485	6,410
<b>Expenses before Transfers</b>	<b>10,145</b>	<b>3,892</b>	<b>11,448</b>	<b>11,524</b>	<b>6,523</b>	<b>1,265</b>	<b>22,699</b>	<b>11,069</b>	<b>6,485</b>	<b>85,050</b>	<b>77,611</b>
Interfund Transfers	(81)	(100)	67	31	383	96	44	(216)		224	(372)
<b>Total Contract Expenses</b>	<b>10,064</b>	<b>3,792</b>	<b>11,515</b>	<b>11,555</b>	<b>6,906</b>	<b>1,361</b>	<b>22,743</b>	<b>10,853</b>	<b>6,485</b>	<b>85,274</b>	<b>77,239</b>
<b>Net Income (Expense)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**UNIVERSITY OF GUELPH**  
**STATEMENT OF EMPLOYEE FUTURE BENEFITS**  
**For the Year Ended April 30, 2007**  
**(in thousands of dollars)**

Schedule 4

**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:

	<u>Pension Plans*</u>		<u>Other Benefit Plans</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Change in Benefit Obligation</b>						
Benefit obligation - beginning of measurement period	906,007	801,587	181,748	152,806	1,087,755	954,393
Current service cost (employer)	26,315	22,102	6,554	5,652	32,869	27,754
Interest cost	46,528	45,228	9,611	8,694	56,139	53,922
Employee contributions	9,558	9,428	-	-	9,558	9,428
Plan amendments	648	8,210	-	-	648	8,210
Actuarial loss	10,370	59,987	42,509	18,081	52,879	78,068
Benefits paid	(41,310)	(40,535)	(3,444)	(3,485)	(44,754)	(44,020)
Benefit obligation - end of measurement period	<u>958,116</u>	<u>906,007</u>	<u>236,978</u>	<u>181,748</u>	<u>1,195,094</u>	<u>1,087,755</u>
<b>Change in Plan Assets</b>						
Market value of plan assets - beginning of measurement period	757,526	697,951	-	-	757,526	697,951
Actual return on plan assets, net of expenses	146,055	82,332	-	-	146,055	82,332
Employer contribution	14,870	8,350	3,444	3,485	18,314	11,835
Employee contributions	9,558	9,428	-	-	9,558	9,428
Benefits paid	(41,310)	(40,535)	(3,444)	(3,485)	(44,754)	(44,020)
Market value of plan assets - end of measurement period	<u>886,699</u>	<u>757,526</u>	<u>-</u>	<u>-</u>	<u>886,699</u>	<u>757,526</u>

**UNIVERSITY OF GUELPH**  
**STATEMENT OF EMPLOYEE FUTURE BENEFITS**  
**For the Year Ended April 30, 2007**  
**(in thousands of dollars)**

Schedule 4

**EMPLOYEE FUTURE BENEFITS (CONTINUED)**

**b) Accrued Benefit Obligations and Plan Assets (continued)**

	<u>Pension Plans*</u>		<u>Other Benefit Plans</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
<b>Reconciliation of funded status</b>						
Funded status - surplus (deficit)	(71,417)	(148,481)	(236,978)	(181,748)	(308,395)	(330,229)
Estimated employer contributions after measurement date	11,171	14	861	923	12,032	937
Unamortized transitional obligation (asset)	(76,722)	(89,380)	34,217	38,495	(42,505)	(50,885)
Unamortized past service costs	27,081	29,357	-	-	27,081	29,357
Unamortized net actuarial loss	155,449	251,357	108,042	68,799	263,491	320,156
Accrued benefit asset (liability), before Valuation Allowance	45,562	42,867	(93,858)	(73,531)	(48,296)	(30,664)
Total Valuation Allowance (VA)	(5,984)	(3,222)	-	-	(5,984)	(3,222)
Accrued benefit asset (liability), net of VA	<u>39,578</u>	<u>39,645</u>	<u>(93,858)</u>	<u>(73,531)</u>	<u>(54,280)</u>	<u>(33,886)</u>
<b>Statement of Financial Position</b>						
Deferred pension costs	40,419	40,275	-	-	40,419	40,275
Accounts payable (employee future benefits - current liability)	(22)	(22)	(4,064)	(3,833)	(4,086)	(3,855)
Employee future benefits (long-term liability)	(819)	(608)	(89,794)	(69,698)	(90,613)	(70,306)
Accrued benefit asset (liability), net of VA	<u>39,578</u>	<u>39,645</u>	<u>(93,858)</u>	<u>(73,531)</u>	<u>(54,280)</u>	<u>(33,886)</u>

\*Pension plans include accrued benefit obligations and plan assets in respect of plans that are not fully funded of \$948,156 and \$870,581 respectively (\$895,236 and \$743,186 respectively for 2006).

**UNIVERSITY OF GUELPH**  
**STATEMENT OF EMPLOYEE FUTURE BENEFITS**  
**For the Year Ended April 30, 2007**  
**(in thousands of dollars)**

Schedule 4

**EMPLOYEE FUTURE BENEFITS (CONTINUED)**

**c) Net Benefit Plan Costs**

	Pension Plans		Other Benefit Plans		Total	
	2007	2006	2007	2006	2007	2006
<b>Components of cost</b>						
Current service cost (employer)	26,315	22,102	6,554	5,652	32,869	27,754
Interest cost	46,528	45,228	9,611	8,694	56,139	53,922
Actual return on assets	(146,055)	(82,332)	-	-	(146,055)	(82,332)
Actuarial (gains) losses	10,370	59,987	42,509	18,081	52,879	78,068
Past service costs	648	8,210	-	-	648	8,210
Settlements/curtailments	-	-	-	-	-	-
Difference between actual and expected return	93,608	34,259	-	-	93,608	34,259
Difference between actual and recognized actuarial gains (losses)	2,300	(47,605)	(39,243)	(15,637)	(36,943)	(63,242)
Difference between actual and recognized past service costs in year	2,276	(5,678)	-	-	2,276	(5,678)
Amortization of transitional obligation (asset)	(12,658)	(12,600)	4,278	4,278	(8,380)	(8,322)
Amortization of transitional increase in VA	5	5	-	-	5	5
Current increase (decrease) in VA	2,757	199	-	-	2,757	199
Net benefit cost	26,094	21,775	23,709	21,068	49,803	42,843

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

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**EMPLOYEE FUTURE BENEFITS (CONTINUED)**

**d) Cash Payments**

Total cash payments for employee future benefits for the 12-months ended January 31, 2007, 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 \$18,314 (2006 \$11,835).

**e) Asset Allocation**

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

<b>Percentage plan assets at January 31</b>	<u><b>2007</b></u>	<u><b>2006</b></u>
Equity securities	68.0%	66.9%
Debt securities	30.1%	30.9%
Cash and short term investments	1.5%	1.6%
Other	0.4%	0.6%
	<u>100.0%</u>	<u>100.0%</u>

**f) Actuarial Valuations**

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

Registered Pension Plans	September 30, 2006
Other Plans	January 31, 2007

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, 2007.

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**EMPLOYEE FUTURE BENEFITS (CONTINUED)**

**g) Significant Assumptions**

The significant actuarial assumptions adopted are as follows:

	<u>Pension Plans</u>		<u>Other Benefit Plans</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>For determining accrued benefit obligation at end of fiscal period:</b>				
Discount rate	5.05%	5.15%	5.10%	5.25%
Rate of increase in future compensation	3.75%	4.00%	n/a	n/a
Rate of increase in national average wage	3.25%	3.50%	n/a	n/a
Rate of increase in Consumer Price Index (CPI)	2.25%	3.00%	n/a	n/a
Rate of post-retirement pension increases	0.50%	1.00%	n/a	n/a
Expected long-term rate of return on plan assets	6.75%	7.00%		
<b>For determining benefit cost during fiscal period:</b>				
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
Rate of post-retirement pension increases	1.00%	1.00%	n/a	n/a
Expected long-term rate of return on plan assets	7.00%	7.00%	n/a	n/a
<b>Assumed health care cost trend rate at end of fiscal period:</b>				
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	2008
Ultimate health care cost trend rate	n/a	n/a	5.00%	5.00%

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**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.

[ in thousands of dollars]	<b>Pension Plans</b>		<b>Other Benefit Plans</b>	
	<b>Benefit</b>	<b>Net</b>	<b>Benefit</b>	<b>Net</b>
	<b>Obligation</b>	<b>Benefit Cost</b>	<b>Obligation</b>	<b>Benefit Cost</b>
	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>
	<b>Increase (Decrease)</b>		<b>Increase (Decrease)</b>	
Impact of discount rate change:				
1% increase	(121,427)	(10,415)	(39,597)	(4,964)
1% decrease	139,162	16,041	51,058	6,220
Impact of health care cost trend rate change:				
1% increase	n/a	n/a	48,872	8,849
1% decrease	n/a	n/a	(38,343)	(6,791)