UNIVERSITY OF GUELPH

Annual Financial Report

Summary of Financial Results and Audited Financial Statements for the fiscal year
May 1, 2009 to April 30, 2010

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A. INTRODUCTION

The following report summarizes University annual financial results for the year ended April 30, 2010 (referred to as “fiscal 2010”). This report consists of two major components. The first, is management’s summary of major financial results for the year; the second presents the audited financial statements for fiscal 2010 including the report from the University’s external auditor. The audited financial statements have been prepared under specific accounting principles that are set by the Canadian Institute of Chartered Accountants (CICA) for not-for-profit organizations.

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 statements.) 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 31.

B. FINANCIAL HIGHLIGHTS 2009/2010

This section summarizes significant financial results for fiscal 2010 including major changes, compared to fiscal 2009. For further analysis and details on these changes, refer to the additional sections indicated.

- **Endowments:** The total market value of University endowment investments grew to $189.3 million ($144.2 million in fiscal 2009). The total increase of $45.1 million ($27.7 million decrease in 2009) or 31% reflects both positive investment returns of 19.2% (negative 17.6% in fiscal 2009) and capital additions of $14.5 million ($6.4 million in fiscal 2009). The recovery of the global financial markets across most major equity asset classes was the main contributor of investment returns. This recovery, while significant, did not fully offset the effect of market declines in 2008 and 2009 in many donor endowment accounts. Consequently, the University will continue to constrain disbursements from certain accounts to ensure capital contributions and longer term spending capacity is protected. Capital additions consist of external donations and transfers directed for specific purposes. Refer to section F for more details on changes to endowment funds.

- **Revenues**: When compared to fiscal 2009, total University revenues increased by 2.1% or $13.2 million to $634.0 million. Most major revenue categories showed some increase with the exception of non-endowment investment income which declined significantly by $7.5 million as a result of historically low short-term investment returns on University operating cash flows (these cash flows are not associated with endowment investments). Major changes contributing to the net increase in 2009/2010 were:

    - MTCU (Ministry of Training Colleges and Universities) grants increased by $2.3 million or 1.4%. This small increase (relative to fiscal 2009) reflects major one-time grants received in fiscal 2009 that were not repeated in fiscal 2010. Other provincial grant funding received in fiscal 2010 was targeted for enrolment growth or special projects.
    - Tuition revenues increased by $13.1 million or 11.8% overall. Most of this increase (82% or $10.8 million) was earned in graduate and undergraduate degree credit programs as a result of both increased enrolment and tuition. The balance of the increase was realized in a variety of non-degree credit programs such as certificate and training programs.
    - Other Grants and Contracts increased by 2.3% or $2.3 million mainly as a result of increases in externally restricted revenues in support of spending on research projects.

(Refer to Section D. for a more complete analysis of revenue changes)

- **Expenses:** Total University Expenses from all funds increased by 1.5% or $9.4 million to $636.6 million compared to fiscal 2009. 92% or $8.7 million of the total increase was concentrated in salaries and benefits categories;

  - Total salary expenses (from all funds) increased by a net 1.2% or $3.6 million. The "salaries" category is impacted by several major factors including salary rate increases, changes to total staff complement and one-time costs. When compared with fiscal 2009, the one-time costs for retirement or resignation incentives decreased by $2.7 million to $7.6 million ($10.3 million in fiscal 2009) contributing a 0.9% decrease in total salaries relative to fiscal 2009. In addition, reflecting the University's multi-year deficit reduction plan, overall staff numbers in most full-time categories decreased contributing to an overall estimated decrease in salaries of 1.7%. The balance of the change in total salaries was mainly the result of negotiated compensation increases. (Refer to section E.1)
  - Total benefit expenses (current and post-employment) increased by $5.1 million or 5.6% relative to fiscal 2009. The net increase was due entirely to an increase in the post-employment (pension and non-pension) accounting expense[1]. Expenses for post-employment benefits increased by $5.3 million to $64.2 million. This net increase consisted of a pension expense increase of $12.0 million ($26.5 million in fiscal 2009 to $38.5 million in fiscal 2010) offset by a decrease of $6.7 million in non-pension post-retirement expenses (health and dental coverage). The pension accounting expense increase reflects a number of events including the impact of the negative global market conditions including declining interest rates. The decrease in non-pension post employment costs is associated with recent positive experience (relative to previous assumptions) with usage of plan benefits. (Refer to Section E.2)

- **Capital acquisitions** spending continued at significant levels ($89.5 million) under a number of major programs including the Knowledge Infrastructure Program (KIP), a joint Federal and Provincial capital program and a Board of Governor's approved (2007-2011 Capital Renewal Financing Plan) for spending on critical building and campus utilities infrastructure. This 5-year plan (revised in November 2009) will see an estimated $108 million in expenses and estimated borrowing of up to $45 million. Spending under this plan is targeted for critical deferred maintenance including campus safety and utilities infrastructure projects. Other objectives include energy conservation projects and in the case of residence buildings, maintaining competitive position through facilities renewal. The difference between spending and borrowing is the result of a combination of special one-time funding received from MTCU restricted for campus infrastructure renewal projects, annual allocations from operating budgets and funding from Student Housing specific for student residence related projects. This funding has helped contain borrowing requirements under this plan however with an estimated $300 million in deferred maintenances costs (buildings and utilities), the University, subject to Board of Governor's approval, will continue to balance campus safety and program requirements with the need to assume further debt. (Refer to Section G.)

- **Unrestricted Deficit** of the University increased by $45.3 million to $210.8 million from $165.5 million compared to fiscal 2009. $38.6 million or 85% of this increase was due to the increased accounting charge

[1] *Annual cash contributions do not constitute post-employment "expense" for financial statement purposes. Accounting expense is an estimate of the costs to an employer for the current and future employer pension obligations incurred in a fiscal year. The complex calculation, prepared by the University's actuaries in accordance with C.I.C.A. accounting guidelines, assigns an annual cost to the pension liability accrued in a year considering both new obligations promised to current employees and the experience of market conditions to pension assets and liabilities.*

for post-employment benefits. A further $13.4 million increase was a one-time restructuring charge in the Operating budget consistent with the University's multi-year plan to reduce its structural deficit by downsizing in a number of academic and support units. This increase to the deficit was offset by a $6.7 increase in the ancillary and capital funds of which $3.9 million is related to the unrealized gain on interest rate swaps.

- The post-employment deficit is the component of post-employment accounting expense that has not been covered by current University revenues. Given the volatility of accounting expenses for post-employment benefits (that, to a large extent are based on current market conditions), it is the University's practice to fund accounting costs through annual allocations that are more constant, with the objective of fully funding these expenses over the longer term. In terms of cash contributions, non-pension post employment benefits are funded on a "pay-as–you" go basis. The University makes pension contributions based on the legislated requirements determined through periodic formal actuarial valuations (the last valuation was completed August 1, 2007 and the next valuation is required August 1, 2010). The University has met all of its cash obligations for post-employment benefits.
- The other component of the increase in the deficit is a $13.4 million increase related to the University's multi-year plan to eliminate a structural deficit in the MTCU component of the Operating fund. The financial objective of the multi-year plan is to remove $46.2 million in annual (base) expenses over the four year period of the plan (fiscal 2009 to fiscal 2012). This deficit which increased to $40.5 million in fiscal 2010 consists of two components;

  1. $15.4 million of incentive and restructuring program costs. A major element of the multi-year plan is the reduction in total faculty and staff complement with the priority being voluntary retirement or resignations through one-time incentive programs.

  2. In addition, there are $25.1 million in unfunded annual program costs reflecting the time required to reduce expenses as part of major restructuring plans particularly associated with academic program changes.

The second year of the plan is complete and the total deficit is consistent with the University's 2010/2011 MTCU Operating Budget approved by the Board of Governors on April 14, 2010. This document is available: http://www.fin.uoguelph.ca/reports/University-budgets

As noted in the preceding sections, the 2010 University financial position has been impacted by a number of events such as negative global market conditions, post-employment benefit costs and the University's multi-year plan to reduce structural costs within its Operating budget. The balance of this report will discuss these impacts in more detail and in the context of prior year results.

C. Comparative Financial Indicators

The following table has been prepared to provide some major University statistics (financial and other) over the past five years.

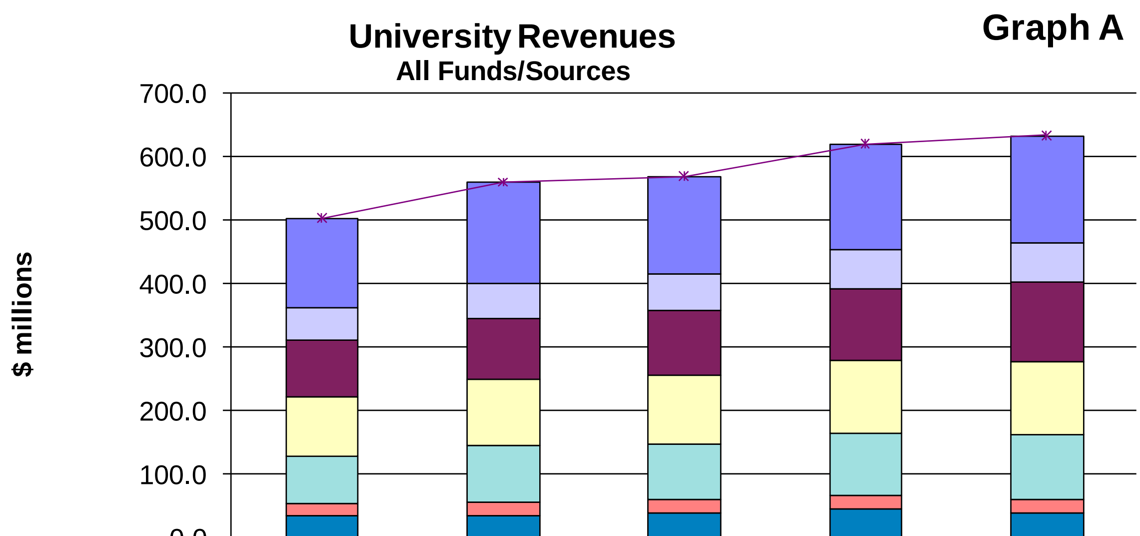
Comparative University Financial Results Fiscal 2006 - 2010 **Table A**

	2006	2007	2008	2009	2010
Enrolment - University Degree Programs (FTEs)	17,538	18,286	18,290	18,664	19,772
Faculty and Staff (Regular Budgeted Positions)	2,902	2,922	2,974	3,029	2,985
Revenues and Expenses:					
Total Revenues ($M)	$ 503.9	$ 560.5	$ 569.3	$ 620.8	$ 634.0
Total Expenditures ($M)	$ 514.7	$ 563.3	$ 580.2	$ 627.1	$ 636.6
Unrealized Gain(Loss) on Interest Rate Swaps			$ (1.2)	$ (4.3)	$ 3.9
Annual Surplus/(Deficit) ($M)	$ (10.9)	$ (2.9)	$ (12.2)	$ (10.7)	$ 1.3
Revenue year-over-year change	2%	11%	2%	9%	2%
Revenue Mix (% of Total Revenues)					
Provincial MTCU Operating Grants	28%	28%	26%	26%	26%
Tuition	18%	17%	18%	18%	20%
Endowment & Donations	3%	2%	2%	2%	2%
Expenditure year-over-year change	1%	9%	3%	8%	2%
Expense Mix (% of Total Expenses)					
Salaries	48%	46%	48%	48%	48%
Benefits	14%	14%	13%	14%	15%
Capital and Capital Debt:					
Total Debt	$ 158.6	$ 159.3	$ 167.7	$ 175.5	$ 179.1
- Total Debt per FTE ($)	*$ 9,043*	*$ 8,712*	*$ 9,166*	*$ 9,402*	*$ 9,057*
% Debt Service to Revenue	2.6%	3.0%	2.4%	2.1%	2.4%
% Debt to Revenue	31.5%	28.4%	29.4%	28.3%	28.2%
Interest Coverage Ratio [1]	1.61	2.47	1.67	1.98	2.29
Capital Acquisitions ($M)	$ 100.7	$ 68.7	$ 54.3	$ 69.1	$ 89.5
Provincial Capital Grants ($M)	$ 26.7	$ 2.3	$ 9.7	$ 13.6	$ 1.6
Endowments:					
- Externally Restricted ($M)	$ 143.2	$ 162.3	$ 151.9	$ 127.7	$ 169.9
- Internally Restricted ($M)	$ 20.9	$ 22.6	$ 20.0	$ 16.5	$ 19.4
Total Endowment Assets - Market Values	$ 164.2	$ 184.9	$ 171.9	$ 144.2	$ 189.3
- Total Endowment per FTE ($)	*$ 9,362*	*$ 10,111*	*$ 9,400*	*$ 7,724*	*$ 9,575*
Post-Employment Benefits:					
Pension Plans - Funded Status Surplus/(Deficit)	$ (148.5)	$ (71.4)	$ (121.6)	$ (165.3)	$ (188.5)
Other Benefit Plans -Funded Status Surplus/(Deficit)	$ (181.7)	$ (237.0)	$ (250.0)	$ (207.4)	$ (221.5)
Latest Valuation Date - Registered Plans	Sep-03	Sep-06	Aug-07	Aug-07	Aug-07
Latest Valuation Date - Other plans	Jan-04	Jan-07	Jan-07	Jan-07	Aug-09

1) Interest Coverage Ratio is the net surplus/deficit excluding interest expense and amortization of capital contributions and depreciation, divided by interest expense.

D. REVENUES

University revenue from all sources was $634.0 million, an increase of 2.1% or $13.2 million from fiscal 2009 ($620.8 million). Refer to Graph A. Most major categories of revenue increased in fiscal 2010; the major exception being investment income earned on the University's operating (non-endowment) portfolio. Over the four years since fiscal 2006, total University revenues have grown by 25.8% or $130.1 million.



	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Provincial MTCU	141.7	159.4	152.5	166.1	168.4
OMAFRA Agreement	50.2	54.9	59.3	62.9	63.1
Tuition	88.7	96.5	101.5	111.1	124.2
Sales of Goods and Services	95.5	104.2	107.4	115.2	116.0
Other Grants and Contracts	74.1	89.1	87.1	99.2	101.5
Amort. of Deferred Capital	18.7	20.9	21.6	21.5	21.4
All Other Revenues	35.0	35.5	39.9	44.8	39.4
Total	503.9	560.5	569.3	620.8	634.0

The following sub-sections provide details on revenue changes between fiscal 2009 and fiscal 2010.

D.1 Provincial MTCU

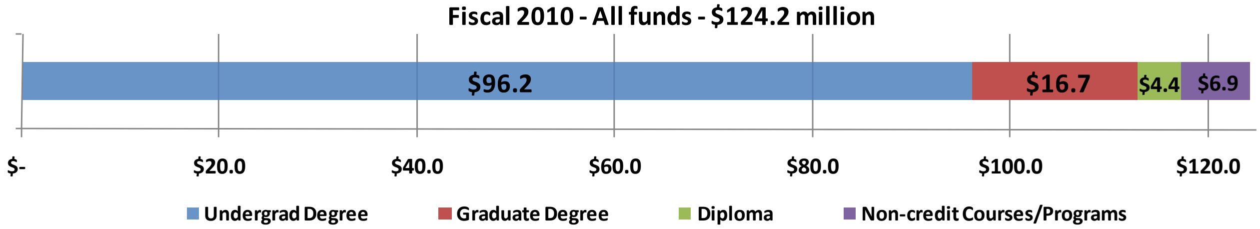
MTCU (Ministry of Training Colleges and Universities) provincial grants increased by $2.3 million or 1.4%. These grants which comprise 26.6% of total University revenue consist of grants targeted for teaching and infrastructure support and capital projects. The $2.3 million recognized as revenue in fiscal 2010 consisted of:

- A $5.1 million (3.1%) increase in total operating grant mainly as a result of graduate and undergraduate enrolment growth.
- A decrease of $2.8 million (64%) down to $1.6 million related to capital funding for campus facilities renewal.

D.2 Tuition Revenue

Tuition Revenue (20% of total revenues) totaled $124.2 million in fiscal 2010 reflecting a $13.1 million or 11.8% total increase. Tuition Revenue consists of revenues earned for both undergraduate and graduate degree credit programs, diploma, and non-credit programs (refer to the chart below). Non-credit programs include a wide variety of courses such as general continuing education, training, and professional certification programs.

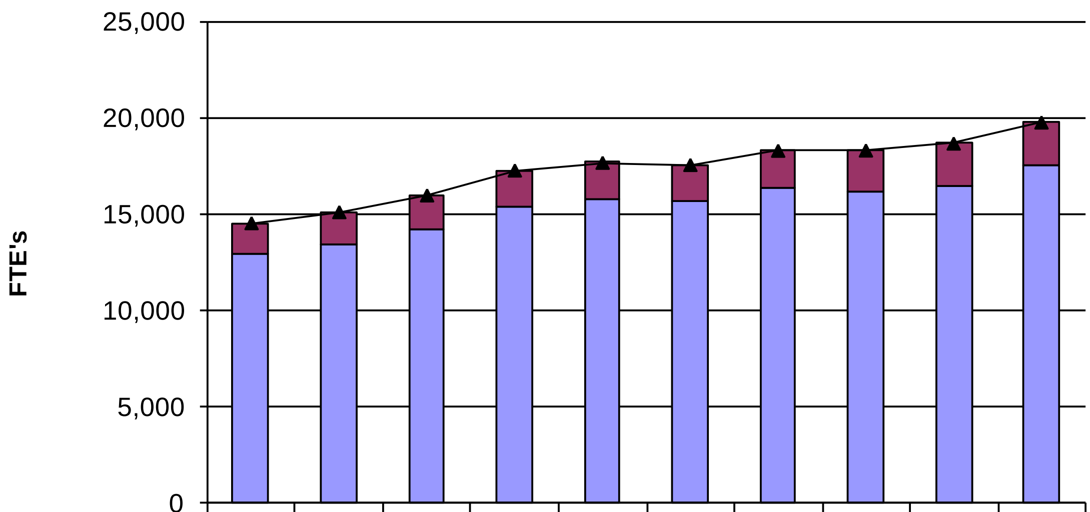
Major Components of Total Tuition Revenue
Fiscal 2010 - All funds - $124.2 million



The fiscal 2010 increase in total tuition revenue was the result of a number of factors including increases in both the student enrolment (numbers) and tuition rates charged for programs relative to fiscal 2009. Most degree credit (undergraduate and graduate) tuition levels are determined under strict MTCU guidelines which limit increases for new and continuing students. In fiscal 2010 these rate increases ranged from 0-8% which was consistent with MTCU guidelines and Board of Governors approval. Total degree credit enrolment increased by approximately 6% reflected in 19,772 FTEs (Full-Time Equivalents) as measured in the fall semester of 2009. Refer to Graph B.

Graph B

Fall Full-Time Equivalent (FTE) Enrolment

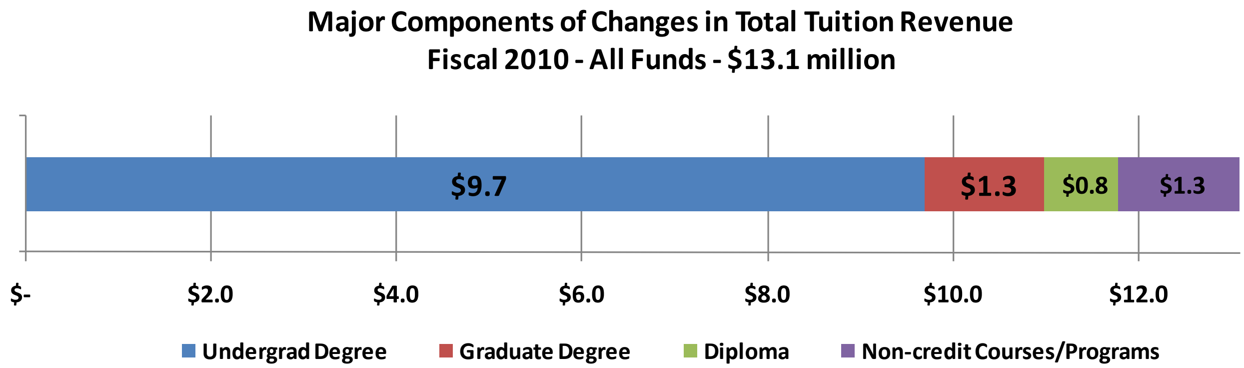


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Graduate	1,619	1,668	1,783	1,890	1,958	1,949	1,946	2,201	2,256	2,269
Undergraduate	12,855	13,388	14,153	15,357	15,730	15,589	16,340	16,097	16,408	17,503
Total	14,474	15,056	15,936	17,247	17,653	17,538	18,286	18,298	18,664	19,772

Most of the increase in student numbers (1,108 FTE's) was from undergraduate enrolment (1,095 FTE's) reflecting a combination of strong demand and the University's planned response to increased provincial funding for enrolment under the University's Integrated Planning process. Accompanying these students, were additional costs associated with teaching, a variety of support services and student assistance.

In addition, tuition revenues from non-credit and diploma programs experienced a continued increase in demand (an increase of $2.1 million or 22.8% compared to the previous year). These programs are offered on both the main campus as part of the Open Learning division and the regional campuses of the Ontario Agricultural College (located in Ridgetown, Kemptville and Alfred).

The chart below presents tuition revenue increases by major program.



D.3 OMAFRA (Ontario Ministry of Agriculture, Food and Rural Affairs) Agreement

Historically, OMAFRA has provided significant funding for a number of major research and education programs at the University. On April 1, 2008, this long standing relationship with OMAFRA was renewed for ten years. As part of the renewed agreement, annual funding was increased by $8.8 million to $59.1 million. In addition, $12.5 million will be available annually over a five year period funded from a one-time payment of $56 million (received in April 2008 and referred to as "New Initiatives" funding). These funds will be disbursed, with interest, over the five year period ending in 2013. This new agreement and the $56 million one-time payment is a significant commitment to the University which will provide a major platform on which to further innovative research and education in agri-food, environmental sustainability, and animal and human health at the University and in the province of Ontario.

In addition to provincial funding, OMAFRA activities at the University generate revenues at facilities supported under the agreement derived mainly from the sale of goods (agricultural commodities), services (research facilities) and laboratory testing. These non-provincial sources of revenue have grown significantly over the past number of years and provide 20% of total funding for OMAFRA sponsored facilities and programs. General revenues earned under the agreement with OMAFRA are recorded on these statements in the appropriate category such as Sales of Goods and Services or Other Revenue. 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. Under the terms of the Agreement, investment income related to Agreement cash flows is credited to the Agreement forming part of the overall funding available. All OMAFRA Agreement revenues and expenses including funding for indirect support costs and capital projects are treated as a separate restricted account <u>within</u> the Operating Fund and must be fiscally balanced. It therefore has no direct financial impact on the net income of the Operating Fund. A separate audited report is prepared for Agreement program revenues and expenses each year.

In fiscal 2010, provincial revenues under the new OMAFRA Agreement remained relatively flat when compared to 2009 ($0.2 million increase over 2009). This change in revenues (matching expenses), does not reflect the full capacity of new funding received as a restructuring of programs and allocations continues to incorporate new directions and priorities of the 2008 Agreement. It is expected recorded revenue will increase significantly in future years as the full impact of the new funding is realized. The increase in revenues recorded under the "OMAFRA Agreement" category does not reflect provincial New Initiatives revenues of $5.8 million recorded in the "Other Grants and Contract" category.

D.4 Other Grants and Contracts

This revenue category records funding that is restricted by a large number of external governments, organizations or individuals for specific purposes. The major component is funding for research projects. Research activities in this category are comprised of about 5,000 individual accounts that record both revenues and expenses for each grant, contract or specific purpose grant. Major sources of research funding include federal research grants such as the Tri-Councils,[2] CFI (Canada Foundation for Innovation), and provincial infrastructure funding and contracts from industry for sponsored-research projects. Research funds and related expenses restricted for capital purposes are reported under the Capital Fund.

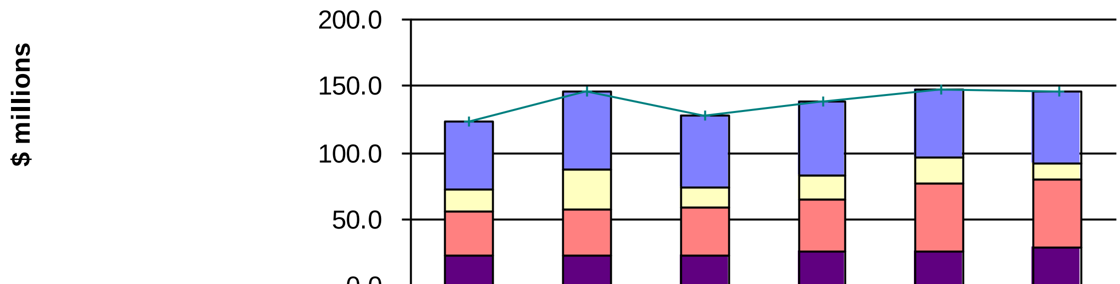
[2] Includes NSERC (Natural Sciences and Engineering Research Council), SSHRC (Social Sciences and Humanities Research Council),CIHR (Canadian Institute of Health Research), CRC's (Canada Research Chair), and NCE's (Networks of Centres of Excellence)

In fiscal 2010, revenue recognized for financial statement purposes[3] increased by $2.3 million, $2.1 million of which is increased funding recognized from OMAFRA under the New Initiative envelope (refer to section D.3). The balance of the increase or $0.2 million was primarily research revenue restricted for fiscal 2010 spending which increased relative to fiscal 2009.

In terms of research funds, $145.2 million was received and allocated to departments in fiscal 2010 ($147.5 million in 2009). Refer to Graph C. The funding was received largely from external sponsors as restricted revenue for both operating and capital purposes.

Graph C

Research Funding Allocated by Major Source



	2005	2006	2007	2008	2009	2010
Federal	52.4	57.8	55.4	54.9	52.0	53.1
Other Ontario	16.1	30.9	15.0	18.7	18.9	12.7
OMAFRA Agreement	33.0	34.4	35.7	38.4	51.4	50.6
Other	22.5	22.3	22.3	25.7	25.2	28.8
Total	124.0	145.4	128.4	137.7	147.5	145.2

[3] *Research funding is restricted for specific purposes by external sponsors, and under C.I.C.A. 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 33 for the accounting policy on revenue recognition).*

D.5 Sales of Goods and Services

This category remained relatively flat (increase of $0.8 million or 0.6% over 2009). The largest change was a $0.6 million increase in OMAFRA related goods and services (i.e. laboratory services, and sales of produce & animals). Ancillary Enterprises revenues increased $0.1 million as a result of general price increases offset to a large extent by reduced sales especially in Hospitality Services, despite increasing enrolment numbers in fiscal 2010. The balance of $0.1 million in net increases was the result of a large variety of activities such as user fees charged for OVC (Ontario Veterinary College) teaching hospital services particularly the small animal clinic, printing, and recovery of miscellaneous service costs.

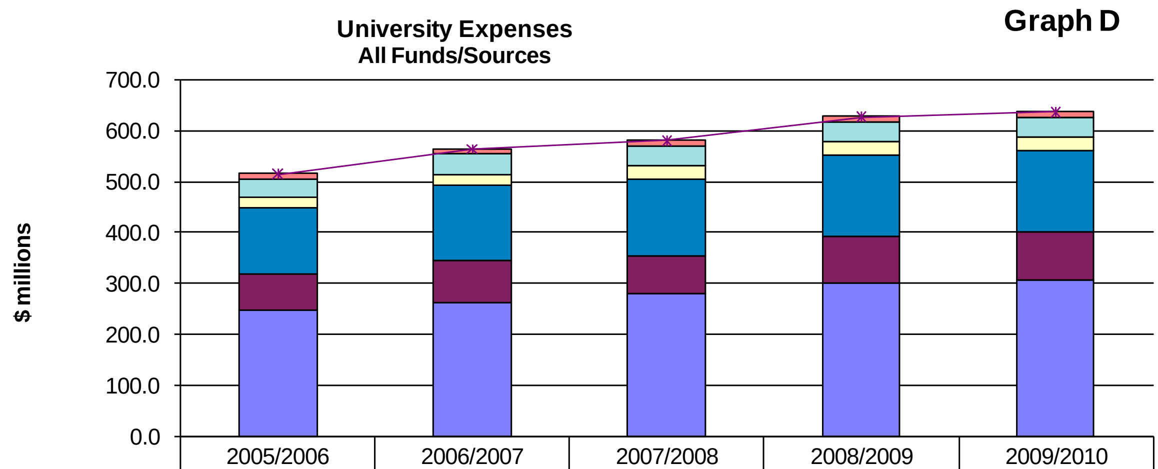
D.6 All Other Revenues

This category (on Graph A) summarizes revenues from donations of $8.4 million, investment income of $3.9 million and all “Other” revenue of $27.1 million.

In fiscal 2010, combined revenues from these sources decreased by $5.4 million or 12.1% compared to 2009. The major component of the decrease was short-term non endowment investment income ($7.5 million decrease), offset by an increase in donations ($0.8 million), and $1.1 million increase from the University’s 50% share in the operations of the University of Guelph-Humber joint venture. The balance of the net increase in this category was from a large variety of miscellaneous sources reflecting increased level of activities.

E. EXPENSES

University expenses, which totaled $636.6 million, increased 1.5% or $9.5 million from fiscal 2009 ($627.1 million). Refer to Graph D.



	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Interest	10.5	10.6	11.0	10.9	11.3
Capital Asset Amortization	35.9	39.4	39.9	38.4	38.5
Scholarships and Bursaries	19.9	22.9	24.3	26.7	26.5
Operating	131.6	147.8	152.1	159.6	160.1
Benefits	71.3	81.4	74.7	90.8	95.9
Salaries	245.5	261.2	278.2	300.7	304.3
Total	514.7	563.3	580.2	627.1	636.6

E.1 Salaries

(48% of total expenses): Total salary expenses (from all funds) increased by a net 1.2% or $3.6 million. The "salaries" category is impacted by several major factors including salary rate increases, changes to total staff complement and one-time costs. When compared with fiscal 2009, the one-time costs for retirement or resignation incentives decreased by $2.7 million to $7.6 million ($10.3 million in fiscal 2009) contributing a 0.9% decrease in total salaries relative to fiscal 2009. The incentives are part of a Board of Governors approved multi-year plan to reduce the total staff complement funded from the University's MTCU Operating budget.

Most departures under this plan and the related cash flows will not occur until May 1, 2010[4]. Under the plan, which covers the fiscal periods 2009 to 2012, $46.2 million is scheduled to be removed from the annual net costs of the MTCU Operating budget with the objective of eliminating the structural deficit by fiscal 2012. Reflecting this plan, overall staff numbers in most full-time categories decreased, contributing to an overall estimated decrease in salaries of 1.7%. The balance of the change in total salaries was essentially the result of negotiated compensation increases.

[4] *Under accounting guidelines, the total expense for these costs must be recorded when the commitment to pay the resignation or retiring allowance is made not at the time of the cash payment or departure.*

E.2 Benefits

(15% of total expenses) increased by $5.1 million to $95.9 million or 5.6%. The employer cost of benefits consists of a wide variety of negotiated (e.g., extended health and dental care) and statutory benefits (e.g., Employment Insurance, Canada Pension Plan and Employer Health Tax). In addition, the University is the sponsor of three defined pension plans that provide eligible employees pension coverage. Further post-employment benefits include a portion of the extended health and dental coverage which is provided to retirees under a cost sharing arrangement. 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 (the expense calculation is dependent on financial market conditions at measurement date each fiscal year), the accounting expense can be an indicator of future cash requirements.

For active employees (non-retirees) employer benefit costs are funded and expensed in the audited statements essentially on a cash basis each year. Those costs in fiscal 2010 (total of $31.7 million) showed a net decrease of $0.2 million. While most negotiated benefit costs showed expected increases, these were offset by a small reduction in statutory benefit costs in fiscal 2010, relative to fiscal 2009 most of which can be attributed to reduced regular full-time staff complements.

Overall employee benefit expenses are now 31.5% of salaries (30.2% in fiscal 2009). Refer to Graph E. The largest component of employer benefit costs are those for post-employment (pension, health and dental). Refer to Schedule 3 - Employee Future Benefits on Page 50 for more detail on the calculation of post-employment expenses.

Post-employment Benefits:

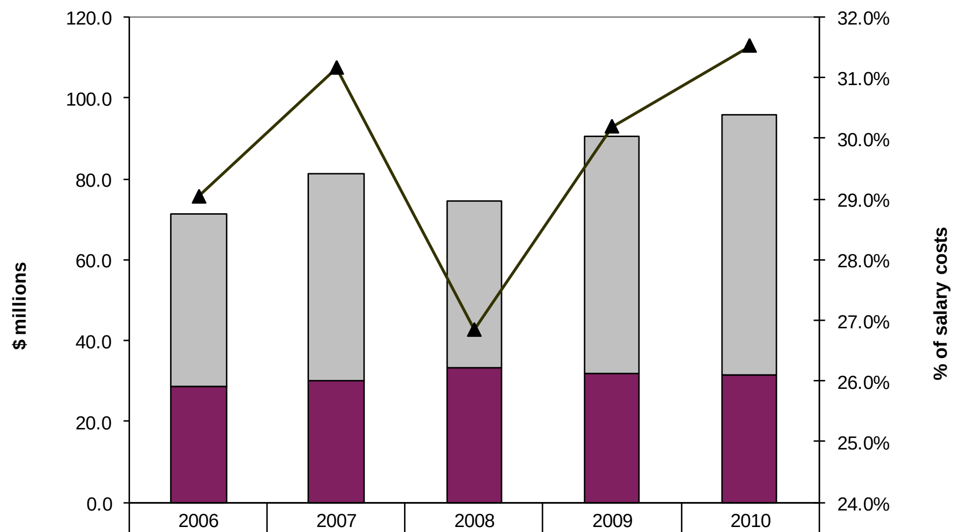
In Ontario, cash requirements (not accounting expense), for defined benefit pension plans are governed by provincial legislation. This legislation, the Pension and Benefit Act (PBA), prescribes the reporting and methodologies for determining the funded status (and any cash requirements) for sponsors of defined benefit pension plans. The University manages a major pool of segregated pension assets to provide funding for future pension obligations. Any shortfalls in asset values (including employee contributions) relative to estimated liabilities must be funded by the plan sponsor from its current assets in the form of cash contributions. Measurement of funding requirements, referred to as an actuarial valuation, is required no less than every three years. As a result of an August 1, 2007 valuation, the date of the University's last pension valuation, the University has made major cash contributions totaling $89.9 million within the past three fiscal years. The next required actuarial valuation date is August 1, 2010.

Current projections, based on existing provincially mandated regulations (under the current PBA), indicate that by August 1, 2010, required University cash contributions will increase substantially. This is the result of the past several years of relatively poor financial market conditions (negative equity returns and low interests rates) which have eroded pension asset values and increased computed liability values. *(Recent provincial regulatory changes have provided options for the University to seek temporary relief in terms of deficiency payment schedules. While full details of the conditions for accessing this potential relief are not yet available, indications are that relief is conditional on restructuring of benefit costs and cost sharing under the plans. The University is reviewing contribution and restructuring alternatives in the context of this change in regulation with the objective of reducing both the volatility of employer costs and total liabilities under these plans.*)

Unlike defined benefit pension plans, future estimated costs (liabilities) for non-pension post employment benefits (dental and extended health coverage for retirees) are not required to be funded and are effectively recorded on a pay-as-you go basis whereby only current cash requirements are met. In fiscal 2010, non-pension post employment expenses decreased 20.6% from $32.4 million to $25.7 million however liabilities increased 14% from $150.4 million to $171.9 million relative to fiscal 2009. The expense reduction reflects a slight decline in usage experience (relative to previous assumptions) while the increase in liabilities is a result of declining long-term interest rates used to calculate total expected future costs. While not an immediate cash requirement, these liabilities indicate significant future requirements based on usage and cost estimates. In fiscal 2010, cash contribution for these plans increased 2.4% to $4.2 million from fiscal 2009.

Graph E

Benefits Accounting Expense as a Percentage of Salaries



	2006	2007	2008	2009	2010
Post-Employment	42.4	51.1	41.2	58.9	64.2
Current Annual	28.9	30.3	33.5	31.9	31.7
% of Salaries	29.0%	31.2%	26.9%	30.2%	31.5%

The 2008 reduction in post-employment benefits costs reflects the impact of significant asset gains in 2007/2008, which temporarily offset a portion of increasing pension liabilities.

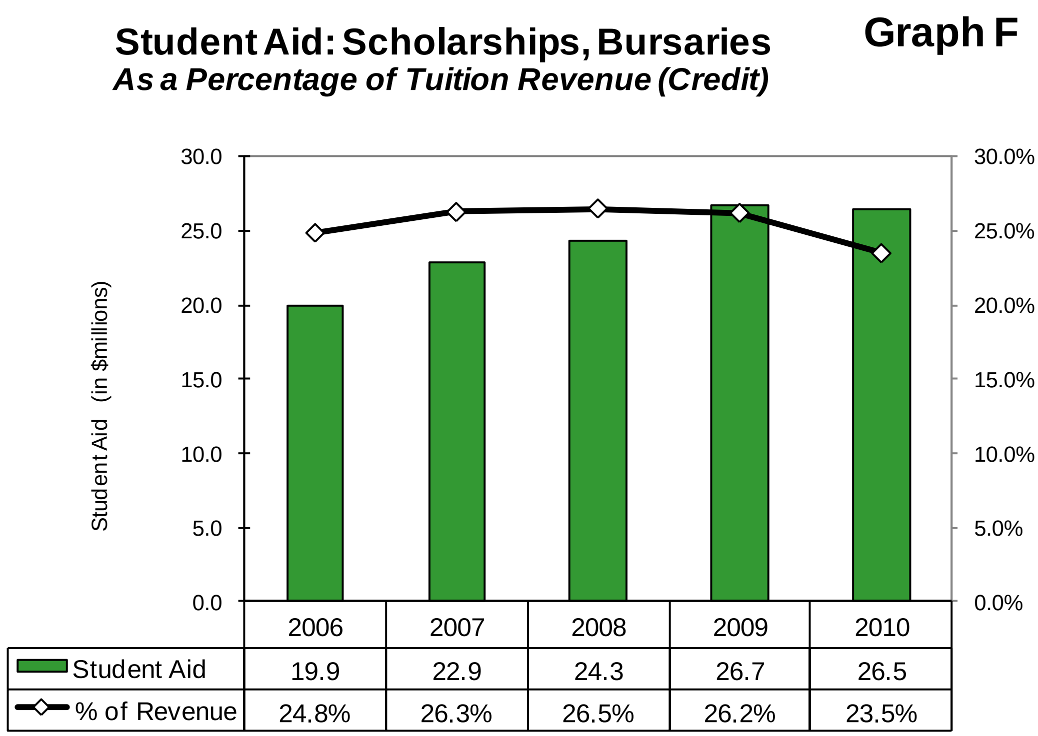
E.3 Operating Expenses

(25% of total expenses) were relatively steady in 2010 increasing $0.5 million or 0.3%. One of the largest components of the increase in fiscal 2010 was research related expenditures that rose by $1.5 million reflecting an increase in research spending. Also of note is that while most other operating categories experienced minor changes, overall campus utility expenses increased by $1.0 million (total net costs of $19.6 million) reflecting the significant rate increases for electricity that were partially offset by a combination of favourable pricing on natural gas contracts and an investment in more efficient utility delivery and utilization systems. The overall increase in Operating Expenses was offset by a $0.9 million reduction in minor (non-capital) renovations which is a result of a focus on capital type renovations versus smaller renovations and repairs.

E.4 Scholarships and Bursaries

Total University spending on Scholarships and Bursaries decreased by $0.2 million or 0.7% to $26.5 million ($26.7 million in fiscal 2009). Refer to Graph F.

Scholarships and Bursaries have two main sources of funding: the Operating Fund and externally restricted funds, e.g., grants, donations and endowments. In fiscal 2010, the University made a decision to reduce spending from all endowments as a result of previous fiscal year's negative return on endowment investments. This temporary restriction of spending will assist in the recovery of fund balances and the longer term spending capacity of endowments. In fiscal 2010, this action resulted in a decrease of $1.1 million in spending for student awards from endowments when compared to 2009. Helping to offset most of this reduction was $0.9 million increase within the Operating Fund as a result of the University's planned increased allocation for student assistance (for primarily needs-based awards) in the 2009/2010 Operating budget. Student aid funding is now approximately 23.5% (26.2% in 2009) of total credit tuition revenues. Of the $26.5 million, 59% was funded from the Operating Fund and 41% from trust (restricted) funds, including endowments.



E.5 Interest Expense

Interest expense increased by 3.1% as a result of the additional debt servicing associated with new capital borrowing. (Refer to section G)

E.6 Unrealized Gain(Loss) on Interest Rate Swaps

In fiscal 2008, the University implemented a new accounting policy related to "financial instruments"[5] consistent with requirements of the C.I.C.A. While these changes have no material impact on cash, the policy requires that financial instruments be valued annually at fair value (e.g., market value for investments and interest rate swaps) and that changes in the fair value are recorded in the Statement of Changes in Financial Position (income statement) each year. These are non-cash entries that reflect changes in the market values of interest rates swaps measured on April 30th each year. As market interest rates decline, the fair value of variable to fixed interest rates swaps decline. Conversely if interest rates increase, gains would be recognized under this new policy.

To the extent that the University holds these swaps to maturity, these reductions will not be realized. Interest rates swaps were entered into in order to fix debt service costs on long term debt (reducing short-term interest rate risk). It is the University's practice to hold all interest rate swaps until the maturity of that debt and related swap. These contracts are recorded at the mark-to-market value based on prevailing interest rates at year end. The Unrealized Gain (Loss) on Interest Rate Swaps in the current year was a gain of $3.9 million (loss of $4.3 million in 2009) reflecting the year end market value of these contracts as long term interest rates increased marginally from April 30, 2009 to April 30, 2010.

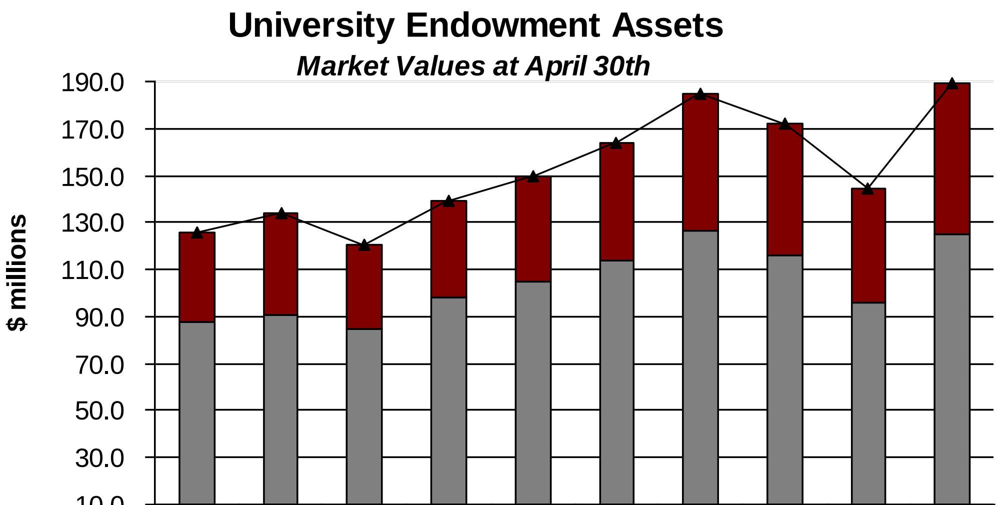
F. ENDOWMENTS

The Endowment Fund is composed of restricted segregated funds provided by external benefactors or established by the Board of Governors. While all University endowments are pooled for investment purposes, there are two major endowment funds with different spending objectives; the Heritage Fund[6] (investments of $64.6 million) and the General Endowment Fund (investments of $124.7 million). Refer to Graph G on the following page. Within the General Endowment Fund there are over 900 individual accounts reflecting individual spending objectives established by both donors and the Board of Governors. In total, the market value at April 30th of all endowment investments had increased by $45.1 million or 31.3% from $144.2 million in 2009 to $189.3 million in 2010. The increase in market value is the result of positive investment returns of 19.2% (-17.6% in fiscal 2009) in addition to capital additions of $14.5 million, net of funds allocated for disbursements.

[5] *"Financial instruments" for the purposes of the University's statements include all investments, receivable, payables, loans or derivatives (interest rate swaps or forward contracts.)*

[6] *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.*

Graph G

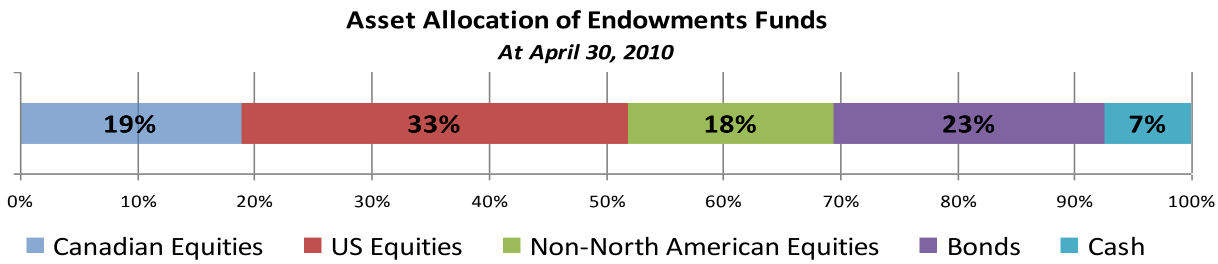


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Heritage	38.2	42.8	36.0	41.6	45.0	50.7	58.7	55.7	48.6	64.6
General	87.9	91.0	84.7	97.9	104.7	113.5	126.2	116.2	95.6	124.7
Total	126.1	133.8	120.7	139.5	149.7	164.2	184.9	171.9	144.2	189.3

The primary objective of all endowment funds is to provide a permanent source of funding by investing the principal amount of a gift and making a portion of the total investment return available for spending. In addition, the goal of the University of Guelph's endowment is to preserve the purchasing power of the endowment account over the long-term. The realization of this objective is achieved in two ways: spending only a portion of total investment returns; and investing in asset classes (e.g., equities) that yield sufficient investment returns to provide inflation protected spending. For most[7] University endowments, annual spending is limited to a percentage of each account's total endowment asset value averaged over the most recent moving four year period. For example, the annual spending rate of the General Endowment Fund was set at 3.5% of the average asset value in fiscal 2010.

The University's endowment assets are managed as a single portfolio of investments in a number of different asset classes. These include Canadian and Global equities as well as fixed income investments such as government and corporate bonds. Investments in equities, while more volatile, provide greater long-term returns that are more effective for preserving the real spending power of endowment funds. This strategy is well accepted for the management of endowments and historically has met the University's endowment objective. At April 30, 2010, 70% of the portfolio was in equities and 23% was in bonds and 7% in cash. Refer to the chart on the next page.

[7] *Spending under the Heritage Fund is governed by a different formula that limits disbursement to the average of a rolling five-year net investment return after having provided for inflation protection and growth of the Heritage portfolio.*



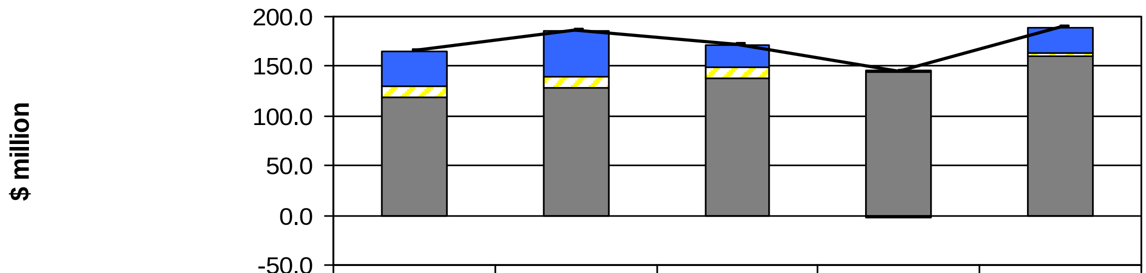
Endowment Spending: The difference between actual total market returns and the spending rate (referred to as Capital Appreciation) is accumulated each year in the endowment fund to provide for capital protection, growth, and if required, to supplement annual returns in meeting annual disbursement. As a result of 2008 and 2009 negative investment returns much of the accumulated capital protection of endowments was eroded (refer to Graph H on the following page). Consequently, in fiscal 2010, endowment spending from many of the individual General Endowment accounts was restricted. This difficult decision was taken to protect the long term capacity of endowments and to strengthen the ability of these accounts to fully recover market losses.

While the impact of restricting endowment spending in 2010 had some relatively minor impact on University operations e.g., endowed faculty chairs, the major impact was on student assistance (55% of all University endowments are allocated to student assistance. Refer to Graph I. Accordingly, the University took action to offset a major portion of the loss in endowment support for student assistance by allocating temporary funding from the 2009/2010 MTCU Operating Budget for certain University commitments for multi-year scholarships and to provide needs based assistance where possible. While the fiscal 2010 recovery in endowments was significant, not all accounts are fully capable of resuming spending and it is anticipated that selected restrictions on spending will remain in place during fiscal 2011.

Allocation of University Endowment Investments

Graph H

(Including Heritage and General Endowment Funds)

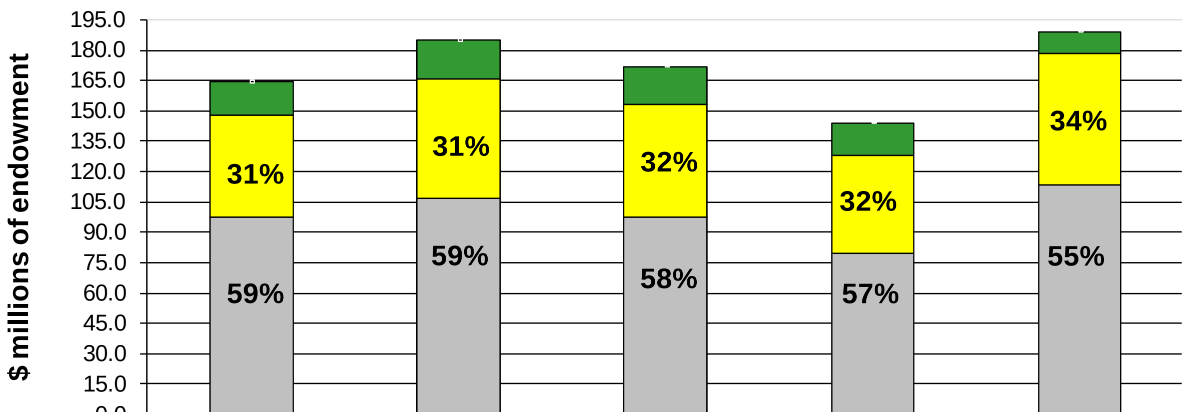


	2006	2007	2008	2009	2010
Capital Appreciation	34.0	45.7	23.3	-1.6	25.6
Funds Available	10.6	10.9	11.3	2.1	2.8
Donated Principal	119.6	128.3	137.3	143.7	160.9
Total	164.2	184.9	171.9	144.2	189.3

Note: "Funds Available" are calculated in accordance with endowment policy: Any unspent funds are accumulated for future years as "Capital Appreciation".

Graph I

Allocation of University Endowments



	2006	2007	2008	2009	2010
Other	16.2	19.2	18.7	16.3	11.1
Heritage	50.7	58.7	55.7	48.6	64.6
Student Aid	97.3	107.0	97.5	79.3	113.6
Total	164.2	184.9	171.9	144.2	189.3

G. CAPITAL AND LONG-TERM DEBT AND INTEREST

G.1 Capital Asset Amortization

In accordance with accounting principles, the cash expenditures for major acquisitions, such as equipment and buildings are not charged to expenses as they occur but over the expected useful life of the related asset. (Refer to note 2(i) on Page 33 for the specific accounting policy). The charge to expenditures is called Capital Asset Amortization. In fiscal 2010 this charge increased by $0.1 million or 0.3% to $38.5 million from 2009 as a direct result of capital acquisition.

G.2 Capital Contributions and Acquisitions

Over the course of the fiscal year the University completed a number of major capital acquisitions (funds spent) funded from a variety of sources ("capital contributions" – funds received) or financed with new external debt. The following is a description of the major capital activity that occurred during the year. Although this activity is not apparent in the audited financial statements, it is reflected in the cash flow and the additions and deletions related to capital assets. Capital Contributions are funds designated by either external restriction or Board of Governor's approval for capital projects. Capital Acquisitions are major building/renovation projects and equipment purchases including construction-in-progress (projects not yet completed).

In the fiscal 2010 financial statements**,** the net book value of capital assets increased by $50.9 million ($30.6 million in 2009), reflecting expenditures on capital and construction-in-progress in several building/renovation projects of $89.5 million ($69.1 million in 2009; refer to Graph J) less capital asset amortization of $38.5 million. These acquisitions will be funded through a combination of new debt, external grant or contract funding, donations, student residence user fees and designated funds in the University's Operating Budget.

- **Capital Contributions received (total $15.7 million):**
  - $1.6 million ($1.6 million in 2009) in MTCU facilities renewal grants were received. The contribution is restricted for deferred maintenance repairs and renovations to the campus physical plant infrastructure. Given the age and usage of University buildings and past deficiencies in funding, at least $200 million in deferred maintenance costs for buildings alone have been estimated[8]. Facilities renewal funding is allocated to deal with the highest priority items such as safety and emergency repairs;
  - $10.8 million in Canada-Ontario Knowledge Infrastructure Program (KIP) funding was received from MTCU restricted for a major Axelrod Building repurposing. The maximum Federal and Provincial funds eligible under this program are $33.6 million and in order to receive these funds the project must be substantially complete by March 31, 2011;
  - $1.9 million from MTCU-Graduate Education Expansion in support of the Axelrod Adaptive Repurposing project;
  - $0.2 million of interest was earned on invested funds received from the federal government and OMAFRA for Phase 1 of the Ontario Veterinary College (OVC) redevelopment project. Invested funds are restricted for the renovation and expansion of the veterinary hospital, laboratories and research buildings. This project includes the new Large Animal Isolation Hospital and the Pathobiology/Animal Health Labs Facility. By the end of fiscal 2010, $43.5 million had been spent for these projects ;
  - $0.2 million was received from Student Energy Retrofit Funds to support the cost of electrical retrofit projects throughout the University;
  - $0.1 million was received in donations designated for capital projects;

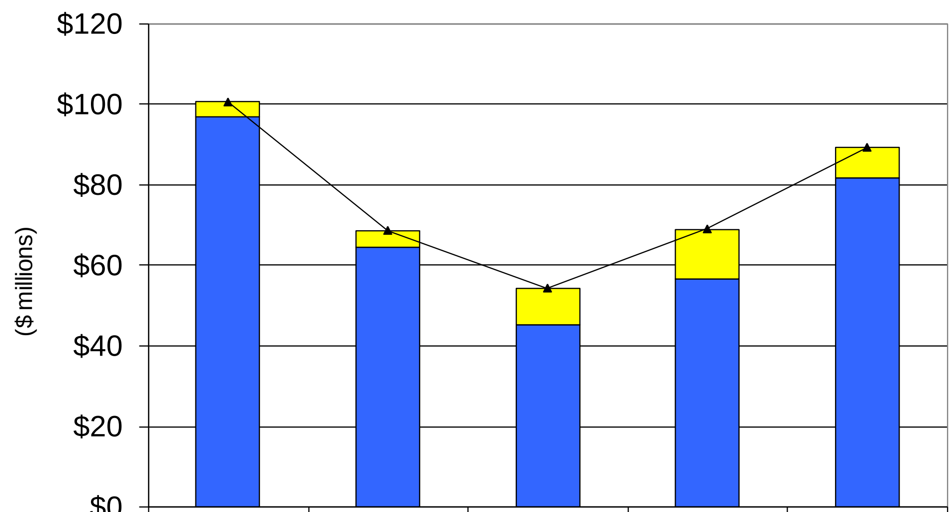
[8] *The University has a Board-approved five year financing plan (2007-2011) for investment in high priority deferred maintenance projects including residence buildings. The costs under this plan are to be funded from a combination of the designated provincial grants, residence fees and borrowing which in the absence of any provincial or federal capital funding, will be serviced from the Operating Fund.*

- $0.9 million was allocated from CFI and Ontario research infrastructure funds to support a number of ongoing capital projects.

- **Capital acquisitions ($89.5 million, refer to Graph J):**
  - $54.2 million in major buildings consisting of: $29.4 million for the OVC Pathobiology/Animal Health Labs Facility, $12.6 million for Axelrod renovations, $8.5 million for the OVC Primary Health Care Facility and $3.7 million for Phase 1 of the expansion to the School of Engineering;
  - $19.9 million in major equipment purchases and building renovations funded by both departmental transfers from the Operating Fund and external research grant/contract funding transferred from the Research and Trust Fund;
  - $5.7 million on the fourth year of the Board approved Five-Year Capital Renewal Financing Plan. Total actual costs to date under this plan are $37.1 million;
  - $6.6 million on the fourth year of Student Housing Services' portion of the Five-Year Capital Renewal Financing Plan. Total spending to date under this plan is $23.1 million;
  - A balance of $3.1 million made up of several smaller projects.

Graph J

Capital Acquisitions by Major Fund



	2006	2007	2008	2009	2010
Ancillary	3.7	4.0	9.1	12.4	7.7
Capital	97.1	64.7	45.2	56.7	81.8
Total	100.8	68.7	54.3	69.1	89.5

G.3 Long Term Debt and Interest

Starting in 2002/2003, the University initiated a number of major capital projects 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 a result of its issuance of a $100-million, 40-year debenture. The proceeds of this additional debt were designated to finance major capital projects in the context of long-term strategic teaching and research plans including a new science building, a major teaching facility (Rozanski

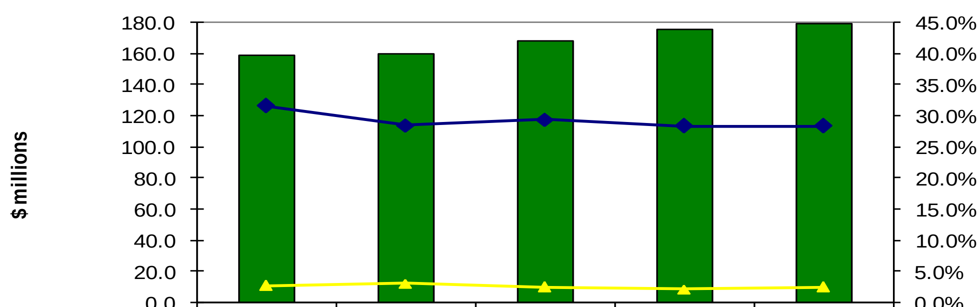
Hall) and faculty offices. In addition, in fiscal 2007 the University created a multi-year plan (fiscal 2007 to fiscal 2011) to begin to address the backlog of major capital deferred maintenance for its campus infrastructure (buildings and utilities delivery systems). This plan which is approved annually by the Board of Governors (the "Five-Year Capital Renewal Financing Plan") has identified $108 million in spending for high priority projects in both residences and main campus facilities. While funding for these projects will include annual provincial grants and housing revenues, at this time, the majority of the expenditures will be financed with new external debt.

In fiscal 2010 major capital acquisitions totaled $89.5 million ($69.1 million in fiscal 2009). $12.3 million of this expenditure was under the Five-Year Capital Renewal Financing Plan of which a total of $7.8 million was financed with new external debt. This debt was secured through bank loans using 15 year interest rate SWAP's to fix the University's interest cost. $2.8 million of the debt will be serviced from the Operating Fund and $5 million funded by the Ancillary Enterprise unit, Student Housing Services. 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 operating revenues.

Total external[9] debt and debt servicing as a percentage of total University revenue are 28.2% (28.3% in 2009) and 2.4% (2.1% in 2009) respectively. Refer to Graph K. Both percentages are within University policy limits of 45% and 4.5%, respectively. The increase in total debt in fiscal 2010 reflects the new debt ($7.8 million) partially offset by a total debt repayment of $4.2 million.[10]

Graph K

Total Debt and Debt Servicing as a Percentage of Total Revenue



	2006	2007	2008	2009	2010
Total Debt	158.6	159.3	167.7	175.5	179.1
% debt to revenues	31.5%	28.4%	29.4%	28.3%	28.2%
% debt servicing to revenues	2.6%	3.0%	2.4%	2.1%	2.4%

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

[9] *The University presents internal funds used for the temporary financing of capital projects in both the Capital Fund and Ancillary Enterprise Fund. They are reported on Statement 3 Page 29 of this report under Internally Restricted Net Assets in the appropriate fund (Capital or Ancillary).*

[10] *Total external debt repayment excludes internal "sinking" fund investments ($18.0 million, market value, in fiscal 2010) that have been set up to retire interest- only debt. Refer to Note 6 on Page 37 "Investments Held for Debt Repayment".*

H. CHANGES IN UNIVERSITY NET ASSETS

The following section summarizes changes to the net asset component of the University's balance sheet. Net assets contain four major elements; **Invested in Capital Assets** which indicates the University's "equity" (asset value less debt) in capital assets; **Endowed** which indicates the size of total endowment accounts (assets, commitments), **Internally Restricted** which indicates funds set aside for specific purposes by the University; **Unrestricted Surplus (Deficit)** which records the net operating position of the University.

H.1 Summary - All Funds

Total University income received in fiscal 2010 from all funds was $634.0 million. Total expenses were $636.6 million, less $3.9 million in Unrealized Gain on Interest Rate Swaps. The net result was a surplus of $1.3 million ($10.7 million net deficit in 2009). In order to complete the total calculation of changes in Net Assets the impact of the changes to "Endowment Contributions" must be considered. In 2010 Endowment Contributions totaled $37.0 million (a net result of positive investment returns, new contributions less funds allocated for spending). The resulting $38.3 million net increase in Net Assets was allocated in accordance with external restrictions, Board policy, and future budget and expenditure requirements. The following table summarizes total University changes in Net Assets for fiscal year 2009/2010:

2009/2010 UNIVERSITY RESULTS
Summary of All Funds ($millions)

	Opening Net Assets (Deficit)	2009/2010 Results	Closing Net Assets (Deficit)
Total University Revenues		634.0	
Total University Expenses		636.6	
Unrealized Gain(Loss) on Interest Rate Swap		3.9	
Revenue Less Expenses		1.3	
Add: Endowment Contributions		37.0	
Increase (Decrease) in Net Assets		38.3	
UNIVERSITY NET ASSETS:			
Invested in Capital Assets	136.2	7.7	143.9
Endowed Funds	140.1	40.7	180.8
Internally Restricted	76.8	35.2	112.0
Unrestricted Operating	(161.7)	(52.2)	(213.9)
Unrestricted All Other Funds	(3.8)	6.9	3.1
Total Net Assets	**187.6**	**38.3**	**225.9**

H.2 Changes in Net Assets, By Fund

The following notes and tables summarize the distribution of changes to Net Assets (Statement 1, Page 27) based on fiscal 2010 financial results:

Invested in Capital Assets: increase of $7.7 million (2009, increase of $5.1 million). This account 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 depreciation) partially offset by the increase in debt on the University's capital assets.

Endowment Fund: Endowment Net Assets records the impact of annual changes in endowment investment income and net funds flow due to donations and disbursements. Endowment Net Assets for fiscal 2010 increased by $40.7 million ($17.9 million decrease in fiscal 2009). This net increase consisted of:

- $3.7 million ($2.3 million in 2009) transferred to the Heritage Fund from real estate net proceeds;
- $10.8 million ($4.1 million in 2009) in additional capital, mainly from donations, received during the year;
- $26.2 million ($34.2 million decrease in 2009) endowed investment income, which is the net of $28.1 million earned less the amount provided for fiscal 2010 spending of $1.9 million.

(Note: Recorded Endowed Assets of $180.8 million is that portion of endowed investments of $189.3 million designated for initial donated capital, plus accumulated investment earnings allocated for inflation protection and growth. The balance of investments has been either designated for spending in accordance with Board policies or has been advanced to the endowment fund for investment purposes only.)

Internally Restricted: (refer to Statement 3 on Page 29) – Internally Restricted refers to funds that are designated for specific purposes by either the Board of Governors or University policy. Examples are funds committed or used for specific purposes such as temporarily financing capital projects, outstanding purchase commitments, departmental funds,[11] research, capital replacement expenses or contingencies. In total, the University's Internally Restricted Net Assets increased by $35.2 million (2009, increase of $43.2 million). Details by Fund are as follows:

- **Internally Restricted Assets - Operating Fund:** This account 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 $30 million to $97.2 million consists of:
    - $0.1 million increase in funds to be used for the purchase of Equipment and Supplies mainly by operational units (colleges and departments);
    - $28.0 million increase to the University Contingency fund which now stands at $40.0 million. These funds were realized largely from University operating revenues received over budget estimates (refer to Table B). The positive results were the consequence of higher enrolments, increasing tuition income and provincial grants, and the continuation of the provincial practice of allocating one-time year end grants to the post-secondary sector. The University does not budget for these one-time grants as they are not part of normal in-year funding estimates and are to a large extent based on the status of provincial finances at their fiscal year end (March 31). The allocation of these funds to the University Contingency account is a deliberate decision taken in preparation for anticipated major increases in pension contributions;
    - $1.9 million in funds for Employee Benefits (timing differences between payments and recoveries by departments for employee benefit costs).
    -
- **Internally Restricted Assets - Capital Fund:** This account records funds designated for specific capital purposes (<u>excluding</u> capital projects funded from Ancillary Operations) such as unspent (but committed) project funds, funds set aside for debt repayment (sinking funds) or funds used to internally finance capital

[11] *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 is operating budget funds that departments may "carry forward" into the following year for specific purposes. Carry-forward funds are calculated as net positive variances relative to budget allocations in any unit at year end.*

projects. The net decrease of $3.1 million consists of $6.4 million in new internal financing offset by increases of $2.3 million in funds designated to complete projects in fiscal 2010 and $1.0 million in additional sinking funds (designated to retire debt).

- **Internally Restricted Assets - Ancillary Fund:** This account records funds designated for specific operating and capital purposes funded from Ancillary Enterprise Operations. Major capital items include funding designated for debt repayment (sinking funds) and internally financed capital projects. The net increase in this fund of $0.5 million consists of $1.0 million decrease in sinking funds which was the repayment of a Student Housing Services mortgage offset by a net repayment of internal financing of $1.5 million.
- **Internally Restricted Assets - Research and Trust Fund:** This account records internal funding designated for specific research or special purpose accounts that has not been spent. The increase of $7.8 million reflects new funds that have been designated but not spent for these purposes

Unrestricted Surplus (Deficit) – reports the accumulated net income or deficit of University operations after adjustments for internal restrictions and investments in capital assets. In total, the University's Unrestricted Deficit increased by $45.3 million to $210.8 million ($165.5 million in fiscal 2009). Components of this increase were:

- **Operating Fund:** recorded an increase in the deficit of $52.2 million. $38.6 million of this deficit increase is the portion of the accounting accrual (non-cash expense) of post-employment benefits that is not funded through the University's annual budget process. In addition, $13.4 million in net costs were incurred in fiscal 2010 from one-time restructuring costs associated with the University's Multi-Year Plan to eliminate its structural deficit in the MTCU Operating Budget by 2011/2012. This deficit, now totaling $40.5 million will be repaid over a seven year period starting in fiscal 2012 from savings set aside as part of the Multi-Year Plan and is within maximum limits established by the Board of Governors. An additional small increase in the total Operating Fund deficit was realized by a $0.2 million decrease in the University's equity share of the capital assets the Guelph-Humber joint venture.
- **Ancillary Fund:** Most Ancillary Enterprise units have as their primary object to fund all expenses including capital debt costs from revenues. In fiscal 2010, unrestricted net assets for the Ancillary Fund increased by $5.3 million in fiscal 2010. $3.3 million of this is the result of a favorable fair market value adjustment on long term debt contracts in Student Housing Services and Real Estate (the impact of accounting for financial instruments. Refer to section E.6). This was augmented by a net total surplus of $2.0 million from all other operations.
- **Capital Fund:** an increase of $1.3 million to the Capital Fund as a result of the accumulated market value adjustments for interest rate swaps and the reduction of unfunded prior years' project balances.
- **Research & Trust Funds:** the deficit decreased by $0.3 million to $0.3 million recording an unfunded research project. This deficit will be retired in the next fiscal year from allocations from other unrestricted research operations.

I.MTCU Budget to Actual Variances

Table B (following page) presents the University's net financial results, compared to the approved budget, for the MTCU component of the Operating Fund (referred to as the MTCU Operating Budget). The MTCU Operating Budget records the University's teaching and related infrastructure costs including most faculty and support staff positions. Overall results were positive relative to budget, reflecting unexpected year-end MTCU grants, higher than expected enrolments and other program revenues greater than budget estimates. Table B presents results and the disposition of net funds for fiscal 2010 by major category of revenue and expense.

2009/2010 MTCU Operating Fund Results TABLE B
(in thousands of dollars)

	2009/10 Budget	2009/10 Actual		Variance
Revenue				
MTCU Grants	156,248	166,696		10,448
Tuition (Credit & Non-Credit)	115,800	124,199		8,399
Sales of Goods and Services	25,388	26,837		1,449
Investment Income	391	507		116
Other Revenue	14,530	20,259		5,729
Research OH Cost Rec & Rev	30,390	31,185		795
Institutional Recoveries	19,062	18,796		(266)
Uof G Share of Guelph Humber Surplus		5,560		5,560
Total Revenue	361,809	394,039		32,230
Expenses				
Salaries	215,737	215,180		557
Benefits	50,735	48,181		2,554
Operating	60,687	62,787		(2,100)
Budgeted Carryforwards for Dept Operations	31,006			31,006
Utilities	20,153	19,641		512
Scholarships and Bursaries	15,918	15,425		493
Other Institutional Transfers	11,800	11,800		-
University Contingency - General	4,755			4,755
University Contingency - Capital	5,210			5,210
University Contingency - Restructuring	7,200			7,200
Restructuring Costs	9,000	4,358		4,642
Unallocated Multi-Year Target	(3,956)			(3,956)
Total Expenses	428,245	377,372		50,873
Revenue Less Expenses	(66,436)	16,667	#1	83,103
Add:Int Restricted Net Assets - Beginning	48,436	67,219	#2	
Total Funds Available	(18,000)	83,886		101,886
Less: Int Restricted Net Assets - Ending				
For Departments		48,576		48,576
For Self Insured Losses		1,000		1,000
For Employee Benefits		7,667		7,667
For University Contingency		40,000		40,000
Total Int. Restricted Net Assets	-	97,243	#2	97,243
Net Change in Fund Balance	(18,000)	(13,357)		4,643

#1 Excludes the $38.629 million accrual for employee future benefits (see note #14 , excluding Guelph Humber) which is unbudgeted for within the Operating fund. This accounts for the difference between the net expense of $16.667 million in Table B above and the $22.162 million Net Decrease in Operating Net Assets per Schedule #1.

#2 See Statement 3 on Page 29 - Statement of Changes in Internally Restricted Net Assets

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October 14, 2010

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, 2010 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, 2010 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

Statement 1

UNIVERSITY OF GUELPH
STATEMENT OF FINANCIAL POSITION
AS AT APRIL 30, 2010

(in thousands of dollars)

	2010	2009
ASSETS		
Current		
Cash and Cash Equivalents (Note 4)	152,541	146,129
Short-term Investments (Note 6)	69,539	74,363
Accounts Receivable	18,490	21,132
Inventories	3,551	3,419
Prepaid Expenses	1,799	1,905
	245,920	246,948
Deferred Pension Costs (Schedule 3)	58,403	77,531
Real Estate Projects in Progress	708	594
Long-term Accounts Receivable	279	186
Investments (Note 6)	202,753	153,932
	262,143	232,243
Capital Assets (Note 9)	646,637	595,725
	1,154,700	**1,074,916**
LIABILITIES		
Current		
Accounts Payable and Accrued Charges	65,302	52,417
Unrealized Loss on Swap Contracts (Note 10)	7,994	11,920
Current Portion of Long-term Debt (Note 10)	3,658	4,307
Current Portion of Deferred Revenue and Contributions (Note 11)	30,522	30,865
	107,476	99,509
Employee Future Benefits (Schedule 3)	168,863	146,388
Long-term Debt (Note 10)	175,424	171,166
Deferred Revenue and Contributions (Note 11)	153,222	186,101
Deferred Capital Contributions (Note 12)	323,792	284,152
	928,777	**887,316**
NET ASSETS		
Invested in Capital Assets (Note 13)	143,877	136,214
Endowed (Note 15)	180,791	140,117
Internally Restricted (Statement 3)	112,071	76,777
Unrestricted Surplus (Deficit) (Note 14)	(210,816)	(165,508)
	225,923	**187,600**
	1,154,700	**1,074,916**

Commitments and Contingencies (Notes 18 & 19)

(See accompanying notes)

E. Siddall Chair

A. Summerlee President

Statement 2

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2010

(in thousands of dollars)

	2010	2009
REVENUE		
Ministry of Training, Colleges and Universities	168,427	166,107
Ministry of Agriculture, Food and Rural Affairs Agreement	63,108	62,930
Tuition (Credit and Non-Credit)	124,199	111,092
Donations (Note 16)	8,350	7,521
Sales of Goods and Services	116,007	115,234
Investment Income (Note 7)	3,956	11,488
Other Grants and Contracts	101,484	99,170
Amortization of Deferred Capital Contributions (Note 12)	21,372	21,469
Other	27,131	25,787
	634,034	620,798
EXPENSES		
Salaries	304,285	300,686
Benefits	95,864	90,815
Travel	13,204	14,004
Operating	140,380	138,135
Minor Renovations and Repairs	6,611	7,495
Interest	11,278	10,941
Scholarships and Bursaries	26,461	26,659
Capital Asset Amortization	38,541	38,442
	636,624	627,177
Unrealized Gain(Loss) on Interest Rate Swaps	3,926	(4,342)
Revenue Less Expenses	1,336	(10,721)
Endowment Investment Income (Loss) Net of Contributions (Note 15)	36,987	(22,324)
Net Increase (Decrease) in Net Assets	38,323	(33,045)
Net Assets, Beginning of Year	187,600	220,645
Net Assets, End of Year	225,923	187,600

(See accompanying notes)

Statement 3

UNIVERSITY OF GUELPH
STATEMENT OF CHANGES IN INTERNALLY RESTRICTED NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2010

(in thousands of dollars)

OPERATING FUND	Balance, Beginning of Year	Transfer To (From) Internally Restricted	Balance, End of Year
Equipment and Supplies	48,436	140	48,576
Self Insured Losses	1,000		1,000
Employee Benefits	5,783	1,884	7,667
University Contingency	12,000	28,000	40,000
	67,219	30,024	97,243
CAPITAL FUND			
Capital Projects and Renovations	4,734	1,031	5,765
Minor Renovations	908	1,280	2,188
Sinking Fund	4,314	957	5,271
Internally Financed Projects	(40,964)	(6,352)	(47,316)
	(31,008)	(3,084)	(34,092)
ANCILLARY ENTERPRISES FUND			
Student Housing Services	500		500
Student Housing Sinking Fund	13,786	(1,026)	12,760
Student Housing Internally Financed Projects	(12,579)	1,033	(11,546)
Parking Services Internally Financed Projects	(1,624)	(107)	(1,731)
Hospitality Services Internally Financed Projects	(3,876)	601	(3,275)
University Centre	246		246
	(3,547)	501	(3,046)
RESEARCH AND TRUST FUND			
Research and Trust	44,113	7,853	51,966
TOTAL	76,777	35,294	112,071

(See accompanying notes)

Statement 4

UNIVERSITY OF GUELPH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 2010

(in thousands of dollars)

	2010	2009
OPERATING ACTIVITIES		
Net Increase (Decrease) in Net Assets (Statement 2)	38,323	(33,045)
Add (Deduct) Non-cash Items:		
Capital Asset Amortization (Statement 2)	38,541	38,442
Amortization of Deferred Capital Contributions (Statement 2)	(21,372)	(21,469)
Increase (Decrease) in Unrealized Investment Income	48,358	8,517
Increase (Decrease) in Unrealized Loss on Swap Contracts (Statement 2)	(3,926)	4,342
(Increase) Decrease in Long-term Receivables	(93)	26
Decrease in Deferred Pension Costs	19,128	13,615
Increase in Employee Future Benefits	22,475	27,955
(Increase) Decrease in Non-cash Working Capital	15,387	(4,040)
	156,821	34,343
FINANCING ACTIVITIES		
Increase in Long-term Debt	7,800	9,996
Repayment of Long-term Debt	(4,191)	(2,177)
Deferred Capital Contributions Received During the Year	61,012	38,782
Increase (Decrease) in Deferred Revenue and Contributions	(33,222)	(25,301)
	31,399	21,300
INVESTING ACTIVITIES		
Net Sales (Purchases) of Investments	(92,355)	23,241
Acquisition of Capital Assets (Note 9)	(89,453)	(69,053)
	(181,808)	(45,812)
Change in Cash & Cash Equivalents	6,412	9,831
CASH & CASH EQUIVALENTS, BEGINNING OF THE YEAR	146,129	136,298
CASH & CASH EQUIVALENTS, END OF THE YEAR	152,541	146,129

(See accompanying notes)

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) Change in Accounting Policies

The University adopted the following recommendation of the Canadian Institute of Chartered Accountants ("CICA") handbook:

Section 1540, Cash Flow Statements. This standard requires the disclosure of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period arising from operating, investing, and financing activities.

Apart from the definition of cash and cash equivalents within the financial statements, the adoption of the new or amended sections did not have a significant impact on the consolidated financial statements.

(b) 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 is available for expenditures.

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 is preserved by restricting future spending should insufficient income be available. 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 Heritage Fund will be held in perpetuity for University strategic purposes. The main sources of growth for the Heritage Fund are proceeds of University real estate sales and leases from designated properties and investment income earned on the Heritage Fund.

Distributions from the Heritage Fund are made in accordance with a formula based on a five-year average of market returns after having provided for inflation protection and growth. Management of the Heritage Fund is delegated by the Board of Governors to the Board of Trustees of the Heritage Fund.

The General Endowment Fund contains all remaining University endowments which consist of private and Board designated donations directed primarily for student aid.

(c) Cash and Cash Equivalents

Cash and Cash Equivalents are cash on hand and highly liquid low risk investments held for the purpose of meeting short-term cash commitments rather than for investing or other purposes, such as debt repayment. Cash equivalents subject to restrictions are classified as short term investments on the Statement of Financial Position.

(d) Short-term Investments

These are highly liquid short-term investments that are held-for-trading. The investments are readily convertible to cash and are recorded at cost plus accrued income, which approximates fair value.

(e) Accounts Receivable

Accounts Receivable consists primarily of trade receivables that are recorded at amortized cost.

(f) Long-term Investments

The University reports its investments at fair value. Publicly traded securities are valued on the latest bid prices and pooled funds are valued based on reported unit values.

(g) Joint Venture

With the approval of the Ontario Ministry of Training, Colleges and Universities, the University of Guelph and The Humber College Institute of Technology and Advanced Learning entered into a Memorandum of Understanding dated June 10, 1999, to develop and deliver joint programming as the University of Guelph-Humber (the Joint Venture). 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 Joint Venture’s total net operating results in the Statement of Operations and Changes in Net Assets.

(h) Inventory Valuation

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

(i) Capital Assets

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

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

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

(j) 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, which approximates fair value.

(k) 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.

(l) 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.

(m) 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.

In addition, 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.

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.

(n) Real Estate Projects

The Real Estate Division is included in the Ancillary Enterprise 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 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. FINANCIAL INSTRUMENTS

(a) Fair value

Cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities are short term financial instruments whose fair value approximates the carrying amount given that they will mature shortly. The fair value of long-term investments is based on publicly traded securities which are valued on the latest bid prices. The fair value of derivatives has been estimated using market quoted rates and interest rates at April 30. Derivatives are recorded on the Statement of Financial Position as assets and liabilities and are measured at fair value. Changes in the fair value of interest rate swap contracts are recorded in the Statement of Operations and Changes in Net Assets as an Unrealized Gain (Loss) on Swap Contracts.

(in thousands of dollars)

(b) Interest rate risk

The University entered into interest rate exchange (swap) contracts with the Toronto Dominion Bank, Bank of Montreal, Royal Bank of Canada and Canadian Imperial Bank of Commerce in order to convert variable-rate borrowings to fixed rates, 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. (Refer to Note 10)

(c) Credit risk

The University is exposed to credit risk in its cash and cash equivalents, short-term investments, accounts receivable, and to the credit risk of its derivative financial instrument counterparties that do not meet their obligations. The University minimizes the credit risk of cash and cash equivalents and short-term investments by depositing with only reputable financial institutions and investing in securities that meet minimum credit ratings as stipulated by the University's investment policy and limiting exposure to any one investment. The University minimizes its credit risk of its accounts receivable by performing credit reviews where necessary. The University minimizes the credit risk of its derivative financial instruments by dealing only with reputable financial institutions and monitoring the credit risk of these financial institutions.

(d) Foreign Exchange Risk

Foreign exchange risk is the risk that the value of the foreign denominated financial instrument portfolio will fluctuate as a result of changes in foreign exchange rates.

The University has an exposure to foreign currency exchange rates primarily because the net assets and earnings of certain investments are denominated in foreign currencies.

4. CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents are comprised as follows:

	2010	2009
Cash	11,849	1,103
Money Markets	125,773	113,697
Canadian Treasury Bills	14,919	31,329
	152,541	146,129

(in thousands of dollars)

5. CAPITAL MANAGEMENT

The University defines its capital as the total of endowment, expendable and externally restricted investments, as well as interest bearing debt. The University's objectives in managing capital are: the preservation of capital, minimizing risk of capital loss, maintaining liquidity for operational requirements, complying with imposed external restrictions and financing capital projects in an effective and competitive manner.

Investment performance and asset allocation for the endowment funds is reviewed by the Investment Management Committee of the Board of Trustees and is reported to the Finance Committee of the Board of Governors. Investment performance and asset allocation for expendable investments are reviewed by the Finance Committee of the Board of Governors. Both investment portfolios are managed under Board approved policy.

Capital borrowing is undertaken by the administration only after review and approval by the Board of Governors. The University has selected the following two key ratios as benchmarks for the maximum level of debt: Ratio of Debt to Total Revenue 45% and Debt Service Costs as a Percentage of Revenues 4.5%. Compliance with these ratios should ensure that the University maintains a strong credit rating and stable access to competitively priced financing. The University also has available a $10 million unused line of credit.

	2010	2009
Investments		
Endowments	189,311	144,167
Expendable	219,593	206,928
Externally Restricted	15,929	23,329
Debt		
Interest Bearing Debt	179,082	175,473
	603,915	549,897

(in thousands of dollars)

6. INVESTMENTS

	2010	2009
Short-term Investments		
Money Market Funds	60,257	66,022
Canadian Treasury Bills	1,443	3,073
Provincial Bonds	1,082	
Guelph-Humber Equity	6,757	5,268
	69,539	74,363
Long-term Investments		
Government of Canada Bonds	11,027	1,520
Province of Ontario Bonds	6,628	7,545
Canadian Equities	45,647	34,859
Canadian Fixed Income	43,615	36,099
Foreign Equities	95,836	73,340
Foreign Fixed Income		569
	202,753	153,932

Included in short and long-term investments are investments held for debt repayment and the General and Heritage Endowment Funds. The total amounts held are as follows:

	2010	2009
Investments Held for Debt Repayment		
Money Market Funds	6,868	9,035
Canadian Treasury Bills	1,443	
Government of Canada Bonds	2,011	1,520
Provincial Bonds	7,709	7,545
	18,031	18,100
General and Heritage Endowment Funds		
Cash and Short-term Notes	14,058	7,879
Canadian Equities	35,802	26,280
Canadian Fixed Income	43,615	36,099
Foreign Equities	95,836	73,340
Foreign Fixed Income		569
	189,311	144,167

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:

	2010	2009
General Endowment	124,741	95,624
Heritage Fund	64,570	48,543
	189,311	144,167

(in thousands of dollars)

7. INVESTMENT INCOME

Investment income is earned from operations and endowments. The investment income from endowments is recorded in operations as the income becomes available for expenditure.

	Operations	Endowment	Total 2010	Total 2009
Net Realized Investment Income (Loss)	1,668	1,758	3,426	(4,625)
Unrealized Gain (Loss) in Investment Income	1,368	26,344	27,712	(20,646)
Total Investment Income (Loss)	3,036	28,102	31,138	(25,271)
(Increase) Decrease in Accumulated Endowed Investment Income		(26,243)	(26,243)	34,242
Investment Income Available for Expenditure	1,859	(1,859)		
Net (Increase) Decrease in Deferred Contributions	(939)		(939)	2,517
Total	3,956		3,956	11,488

8. 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 advances funds equal to the cost of these services to the Joint Venture on an ongoing basis and is then reimbursed for these expenses periodically. At April 30, 2010, there is a net advance of $191 (2009 $4,058) outstanding.

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, 2010). The total net return for the University is $6,757 (2009 $5,268).

A financial summary of the joint venture for the fiscal years ended March 31, 2010 and 2009 is as follows:

Financial Position:	2010	2009
Total Assets	19,904	16,039
Total Liabilities	6,390	5,503
Total Net Assets	13,514	10,536
Results of Operations:		
Total Revenue	36,995	32,729
Total Expenses	25,775	23,738
Excess of Revenue over Expenses	11,220	8,991
Net Assets		
Unrestricted	11,120	8,241
Internally Restricted	500	
Invested in capital Assets	1,894	2,295
	13,514	10,536
University Share (50%)	6,757	5,268

(in thousands of dollars)

9. CAPITAL ASSETS

a) Details

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	8,761		8,761	8,761
Land improvements	28,371	11,232	17,139	17,409
Buildings	670,200	215,892	454,308	448,877
Furniture and equipment	223,086	138,288	84,798	90,231
Construction in progress	73,214		73,214	23,309
Computer equipment	31,023	26,978	4,045	2,866
Library and art collection	16,918	12,546	4,372	4,272
	1,051,573	404,936	646,637	595,725

b) Change in Net Book Value

	2010	2009
Balance, beginning	595,725	565,114
Purchase of capital assets	89,453	69,053
Less: Amortization of capital assets	(38,541)	(38,442)
Balance, ending	646,637	595,725

c) Insured Values

	2010 Net Book Value	2010 Insured Value	2009 Net Book Value	2009 Insured Value
Buildings	454,308	1,544,000	448,877	1,393,607
Furniture, equipment and library books	93,214	706,000	97,368	698,122
Art and artifacts collection	1	36,976	1	31,703

(in thousands of dollars)

10. a) LONG-TERM DEBT

	Interest Rate %	Issue Date	Due Date	2010 Total	2009 Total
Series A Unsecured Debenture	6.24	11-Oct-02	10-Oct-42	100,000	100,000
Banker's Acceptance					
Toronto Dominion Bank	4.91	20-Dec-07	20-Dec-22	6,827	7,359
Toronto Dominion Bank	4.54	10-Apr-08	10-Apr-23	2,601	2,800
Toronto Dominion Bank	4.89	13-Mar-09	13-Mar-24	9,333	9,996
Canadian Imperial Bank of Commerce	4.96	1-May-06	2-May-16	3,791	4,389
Bank of Montreal	7.01	16-Oct-00	15-Jun-25	30,100	30,600
Royal Bank of Canada	4.85	23-Mar-10	24-Mar-25	7,800	
				60,452	55,144
Leases payable					
Ontario Student Housing Corp.	6.13	1-Jan-69	1-Dec-18	513	555
Canada Mortgage and Housing Corp.	5.88	1-Jan-69	1-Dec-18	4,503	4,874
				5,016	5,429
Mortgages payable					
Canada Mortgage and Housing Corp.	5.38	1-Jan-67	1-Dec-16	534	595
Ontario Housing Corp.(interest only)	10.36	1-Oct-90	1-Apr-10		1,225
Ontario Housing Corp.(interest only)	9.86	1-Dec-92	1-Jun-11	13,080	13,080
				13,614	14,900
				179,082	175,473
Current Portion				(3,658)	(4,307)
				175,424	171,166

During the current fiscal year, the University of Guelph made principal repayments in the amount of $4,191 (2009 $2,177) and incurred $11,278 (2009 $10,941) in interest expense from long-term debt.

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

	Principal	Interest	Total
2011	3,658	11,329	14,987
2012	16,630	11,117	27,747
2013	3,881	9,630	13,511
2014	3,915	9,429	13,344
2015	4,150	9,196	13,346
	32,234	50,701	82,935
Thereafter	146,848		
	179,082		

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

c) INTEREST RATE SWAP

The University entered into interest rate exchange (swap) contracts with the Toronto Dominion Bank, Bank of Montreal, Royal Bank of Canada and Canadian Imperial Bank of Commerce in order to convert variable-rate borrowings to fixed rates, 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 University entered into an interest rate exchange (swap) with the Royal Bank of Canada (RBC), dated March 17, 2010, for two debt instruments to be used for the building and infrastructure renewal program.

The notional amounts of the interest rate swap and the net unrealized gain (loss) on these contracts outstanding at April 30, 2010 are:

		2010		2009	
	Due Date	Notional Amount	Gain/(Loss)	Notional Amount	Gain/(Loss)
Toronto Dominion	20-Dec-22	6,803	(452)	7,335	(924)
Toronto Dominion	10-Apr-23	2,601	(112)	2,800	(280)
Toronto Dominion	13-Mar-24	9,333	402	10,000	(46)
Royal Bank of Canada	24-Mar-25	7,790	(89)		
Royal Bank of Canada	1-May-25	10,000	(120)		
Canadian Imperial Bank of Commerce	2-May-16	3,750	(240)	4,350	(471)
Bank of Montreal	15-Jun-25	30,038	(7,383)	30,538	(10,199)
			(7,994)		(11,920)

(in thousands of dollars)

11. 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.

	2010	2009
a) **Deferred Revenue**		
Prepaid Leases, Fees and Grants	15,965	16,546
OMAFRA Advance	16,478	14,621
OMAFRA Five Year Grant	46,407	52,258
Other	2,877	3,126
	81,727	86,551
Less: Current Deferred Revenue	(30,522)	(30,865)
	51,205	55,686
b) **Deferred Contributions**		
Changes in Deferred Contributions are as follows:		
Balance, beginning of year	130,415	151,802
Contributions received during the year	109,119	119,054
Contributions recognized in the year	(137,517)	(140,441)
Balance, end of year	102,017	130,415
Total Deferred Revenue and Contributions	153,222	186,101

12. 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.

	2010	2009
Changes in Deferred Capital Contributions are as follows:		
Balance, beginning of year	284,152	266,839
Contributions received during the year	61,012	38,782
Amortization of deferred capital contributions	(21,372)	(21,469)
Balance, end of year	323,792	284,152

(in thousands of dollars)

13. INVESTED IN CAPITAL ASSETS

	2010	**2009**
Capital Assets (Net Book Value)	646,637	595,725
Less:		
Long-term Debt	(179,082)	(175,473)
Deferred Capital Contributions	(323,792)	(284,152)
Add: Unused Real Estate Debt	114	114
Invested in Capital Assets	143,877	136,214

Change in Invested in Capital Assets

	2,010	**2,009**
Purchase of Capital Assets	89,453	69,053
Debt Payment	4,191	2,177
(Unused) Real Estate Debt		(434)
Increase in Deferred Capital Contributions	(61,012)	(38,782)
Amortization Expense	(38,541)	(38,442)
Deferred Capital Contribution Amortization	21,372	21,469
Increase in Long-term Debt	(7,800)	(9,996)
	7,663	5,045

14. UNRESTRICTED SURPLUS/(DEFICIT)

	2010	**2009**
Operating Fund		
Unfunded Deficit & Restructuring Costs	(40,482)	(27,125)
Accrual for Employee Future Benefits	(174,406)	(135,777)
University of Guelph-Humber	947	1,147
	(213,941)	(161,755)
Capital Fund (Schedule 1)	176	(1,133)
Ancillary Enterprises (Schedule 2)	3,225	(2,094)
Research & Trust Fund (Schedule 1)	(276)	(526)
Balance, end of year	(210,816)	(165,508)

The University's total Unrestricted Surplus (Deficit) for the Operating Fund at the end of fiscal 2009/10 shows a net deficit of $213,941 consisting of:

- **Unfunded Deficit & Restructuring Costs**: The University has an unfunded accumulated operating budget deficit of $25,100 and restructuring costs (employee buy-out programs) of $15,382. This deficit has been approved by the Board of Governors as part of a multi-year plan to eliminate the University's structural deficit over a four year period.
- **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.
- **University of Guelph-Humber**: This joint venture surplus represents a portion of the University's unrestricted net assets with The Humber College Institute of Technology and Advanced Learning.

(in thousands of dollars)

15. 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.

	Externally Restricted	Board Restricted	Total 2010	Total 2009
Investment income (loss) on endowments	25,072	3,030	28,102	(29,894)
Less: available for expenditure	(1,245)	(614)	(1,859)	(4,348)
Increase (Decrease) in accumulated endowed investment income	23,827	2,416	26,243	(34,242)
Contributions received during year	10,608	136	10,744	11,918
Endowment Investment Income (Loss) Net of Contributions	34,435	2,552	36,987	(22,324)
Transfers in	3,687		3,687	4,363
Net Increase (Decrease) in Net Assets	38,122	2,552	40,674	(17,961)
Net assets, beginning of year	124,108	16,009	140,117	158,078
Net assets, end of year	162,230	18,561	180,791	140,117

16. DONATIONS

	2010	2009
Donations received during the year	15,586	18,191
Donations recorded as a direct addition to endowments	(10,358)	(2,688)
Donations (increase) decrease in deferred contributions	3,739	(7,477)
Donations recorded as deferred capital contributions	(617)	(505)
Donations recognized as revenue	8,350	7,521

17. VILLAGE BY THE ARBORETUM

The Village by the Arboretum (VBA) is an adult lifestyle community situated on 110 acres of University land, which is managed by Reid’s Heritage Homes Ltd. The University (Landlord) entered into a lease agreement with Reid’s Heritage Homes Ltd. (Tenant), whereby, the tenant contributes to two reserve funds for the repair and replacement of capital items. The fund balance at December 31, 2009 is $2,992 (2008 $2,378).

These funds are restricted for the above stated purpose and are held by an independent portfolio manager in a consolidated account.

The University makes no financial contribution to these funds and the assets are not readily realizable by the University. Consequently, the University’s interest in the assets, liabilities and results of operation are not included in these financial statements. During the term of the lease the Tenant has ownership responsibility for the property and improvements. On expiration July 1, 2052 the ownership responsibilities are passed to the Landlord.

18. COMMITMENTS

Costs to complete major capital projects in progress as at April 30, 2010 are estimated to be $57,554 (2009 $52,919) and will be funded by government grants, gifts and University resources.

19. CONTINGENCY

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 management that the resolution of these claims will not have a material effect on the financial position of the University.

The University is a member in a self-insurance co-operative in association with other Canadian universities to provide property and general liability insurance coverage. Under this arrangement referred to as the Canadian Universities Reciprocal Insurance Exchange (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.

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.

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

The University has guaranteed a loan of up to $2,500 for the Guelph Cutten Club. As of April 30, 2010 the Guelph Cutten Club borrowed $1,683 under this guarantee.

The University has signed a letter of credit with the City of Guelph related to the landscaping at the Pathobiology/Animal Health lab facility. The letter of credit is for $32.

20. COMPARATIVE NUMBERS

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

Schedule 1

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2010
(in thousands of dollars)

	OPERATING FUND	CAPITAL FUND	ANCILLARY ENTERPRISES (Schedule 2)	RESEARCH & TRUST FUND	ENDOWMENT FUND	TOTAL 2010	TOTAL 2009
REVENUE							
Ministry of Training, Colleges and Universities	166,696	1,621	110			168,427	166,107
Ministry of Agriculture, Food and Rural Affairs Agreement	63,108					63,108	62,930
Tuition (Credit and Non-credit)	124,199					124,199	111,092
Donations (Note 16)	55			8,295		8,350	7,521
Sales of Goods and Services	44,295		71,712			116,007	115,234
Investment Income (Note 7)	733	97	173	2,953		3,956	11,488
Other Grants and Contracts	11,220			90,264		101,484	99,170
Amortization of Deferred Capital Contributions (Note 12)		21,304	68			21,372	21,469
Other	26,429	208	494			27,131	25,787
	436,735	23,230	72,557	101,512		634,034	620,798
EXPENSES							
Salaries	247,806		15,037	41,442		304,285	300,686
Benefits	87,972		3,140	4,752		95,864	90,815
Travel	7,033		153	6,018		13,204	14,004
Operating	85,443	43	23,576	31,318		140,380	138,135
Minor Renovations and Repairs		4,893	1,718			6,611	7,495
Interest		6,682	4,596			11,278	10,941
Scholarships and Bursaries	15,476			10,985		26,461	26,659
Institutional (Recovery) Charges	(9,728)		9,728				
Capital Asset Amortization		33,985	4,556			38,541	38,442
	434,002	45,603	62,504	94,515		636,624	627,177
Unrealized Gain(Loss) on Interest Rate Swaps		666	3,260			3,926	(4,342)
Revenue Less Expenses	2,733	(21,707)	13,313	6,997	-	1,336	(10,721)
Endowment Investment Income (Loss) Net of Contributions (Note 15)					36,987	36,987	(22,324)
Interfund Transactions	(24,895)	25,815	(5,713)	1,106	3,687		
Net Increase (Decrease) in Net Assets	(22,162)	4,108	7,600	8,103	40,674	38,323	(33,045)
Composed Of:							
Net Increase (Decrease) in Invested in Capital Assets		5,883	1,780			7,663	5,045
Net Increase (Decrease) in Endowments					40,674	40,674	(17,961)
Net Increase (Decrease) in Internally Restricted	30,024	(3,084)	501	7,853		35,294	43,191
Net Increase (Decrease) in Unrestricted	(52,186)	1,309	5,319	250		(45,308)	(63,320)
Net Increase (Decrease) in Net Assets	(22,162)	4,108	7,600	8,103	40,674	38,323	(33,045)

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2010
(in thousands of dollars)

	OPERATING FUND	CAPITAL FUND	ANCILLARY ENTERPRISES (Schedule 2)	RESEARCH & TRUST FUND	ENDOWMENT FUND	TOTAL 2010	TOTAL 2009
Net Assets, Beginning of Year	(94,536)	73,998	24,434	43,587	140,117	187,600	220,645
Net Increase (Decrease) in Net Assets	(22,162)	4,108	7,600	8,103	40,674	38,323	(33,045)
Net Assets, End of Year	(116,698)	78,106	32,034	51,690	180,791	225,923	187,600
Net Assets Components:							
Invested in Capital Assets		112,022	31,855			143,877	136,214
Endowed					180,791	180,791	140,117
Internally Restricted	97,243	(34,092)	(3,046)	51,966		112,071	76,777
Unrestricted Surplus (Deficit)	(213,941)	176	3,225	(276)		(210,816)	(165,508)
Net Assets, End of Year, Surplus (Deficit)	(116,698)	78,106	32,034	51,690	180,791	225,923	187,600

(See accompanying notes)

Schedule 2

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR ANCILLARY ENTERPRISES
FOR THE YEAR ENDED APRIL 30, 2010

(in thousands of dollars)

	HOSPITALITY SERVICES	REAL ESTATE	STUDENT HOUSING SERVICES	PARKING	UNIVERSITY CENTRE	TOTAL 2010	TOTAL 2009
REVENUE	32,294	5,401	29,797	2,912	2,153	72,557	72,922
EXPENSES							
Cost of Materials	13,010				422	13,432	13,998
Salaries	9,694	187	3,961	338	857	15,037	15,286
Benefits	1,998	53	817	93	179	3,140	3,153
Institutional Charges	1,904		7,117	223	484	9,728	9,426
Operating	4,268	782	4,448	296	350	10,144	10,258
Travel	42	7	83	13	8	153	132
Minor Renovations and Repairs	56		1,500	162		1,718	699
Interest	-	171	4,425			4,596	4,463
Capital Asset Amortization	629	489	3,193	218	27	4,556	4,386
Total Operating Expenses	31,601	1,689	25,544	1,343	2,327	62,504	61,801
Unrealized Gain(Loss) on Interest Rate Swaps		231	3,029			3,260	(3,954)
Revenue Less Expenses	693	3,943	7,282	1,569	(174)	13,313	7,167
Interfund Transactions	(428)	(3,561)	(983)	(960)	219	(5,713)	(4,002)
Net Increase (Decrease) in Net Assets	265	382	6,299	609	45	7,600	3,165
Composed Of:							
Net Increase (Decrease) in Invested in Capital Assets	(361)	164	1,514	416	47	1,780	4,374
Net Increase (Decrease) in Internally Restricted	601		7	(107)		501	228
Net Increase (Decease) in Unrestricted	25	218	4,778	300	(2)	5,319	(1,437)
Net Increase (Decrease) in Net Assets	265	382	6,299	609	45	7,600	3,165

Schedule 2

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR ANCILLARY ENTERPRISES
FOR THE YEAR ENDED APRIL 30, 2010

(in thousands of dollars)

	HOSPITALITY SERVICES	REAL ESTATE	STUDENT HOUSING SERVICES	PARKING	UNIVERSITY CENTRE	TOTAL 2010	TOTAL 2009
Net Assets, Beginning of Year	6,025	12,592	578	4,408	831	24,434	21,269
Net Increase (Decrease) in Net Assets	265	382	6,299	609	45	7,600	3,165
Net Assets, End of Year	6,290	12,974	6,877	5,017	876	32,034	24,434
Net Assets Components:							
Invested in Capital Assets	9,507	9,172	6,914	5,869	393	31,855	30,075
Internally Restricted	(3,275)		1,714	(1,731)	246	(3,046)	(3,547)
Unrestricted Surplus (Deficit)	58	3,802	(1,751)	879	237	3,225	(2,094)
Net Assets, End of Year, Surplus (Deficit)	6,290	12,974	6,877	5,017	876	32,034	24,434

UNIVERSITY OF GUELPH
EMPLOYEE FUTURE BENEFITS
For the Year Ended April 30, 2010
(in thousands of dollars)

a) Description of Plans

The University has a number of funded and unfunded defined benefit programs that provide pension and other post-employment benefits to its employees. The pension programs provide benefits that are based on years of service and best average earnings. The benefit rates are adjusted annually to reflect any increase in the Consumer Price Index (limited to 8%) that is in excess of 2%. The University's other benefit plans provide extended health care and dental plan benefits to retirees and their eligible dependents on a cost-sharing basis. Retiree contributions to the health and dental programs cover 30% and 50% of the costs respectively.

b) Accrued Benefit Obligations and Plan Assets

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

	Pension Plans*		Other Benefit Plans		Total	
	2010	2009	2010	2009	2010	2009
Change in Benefit Obligation						
Benefit obligation - beginning of measurement period	884,532	1,001,128	207,435	249,977	1,091,967	1,251,105
Current service cost (employer)	20,573	29,704	6,953	9,660	27,526	39,364
Interest cost	56,583	51,529	13,737	13,122	70,320	64,651
Employee contributions	12,494	12,057	-	-	12,494	12,057
Employee transfers	703	1,144	-	-	703	1,144
Plan amendments	-	1,859	-	-	-	1,859
Actuarial loss (gain)	98,209	(165,682)	(2,600)	(61,385)	95,609	(227,067)
Benefits paid	(48,554)	(47,207)	(4,002)	(3,939)	(52,556)	(51,146)
Benefit obligation - end of measurement period	1,024,540	884,532	221,523	207,435	1,246,063	1,091,967
Change in Plan Assets						
Market value of plan assets - beginning of measurement period	719,233	879,549	-	-	719,233	879,549
Actual return on plan assets, net of expenses	135,336	(134,826)	-	-	135,336	(134,826)
Employer contribution	16,875	8,516	4,002	3,939	20,877	12,455
Employee contribution	12,494	12,057	-	-	12,494	12,057
Employee transfers	703	1,144	-	-	703	1,144
Benefits paid	(48,554)	(47,207)	(4,002)	(3,939)	(52,556)	(51,146)
Market value of plan assets - end of measurement period	836,087	719,233	-	-	836,087	719,233

(in thousands of dollars)

b) Accrued Benefit Obligations and Plan Assets (continued)

	Pension Plans*		Other Benefit Plans		Total	
	2010	2009	2010	2009	2010	2009
Reconciliation of funded status						
Funded status - surplus (deficit)	(188,453)	(165,299)	(221,523)	(207,435)	(409,976)	(372,734)
Employer contributions after measurement date	5,117	3,284	1,385	1,214	6,502	4,498
Unamortized transitional obligation (asset)	(39,229)	(51,409)	21,383	25,661	(17,846)	(25,748)
Unamortized past service costs	19,750	22,834	-	-	19,750	22,834
Unamortized net actuarial loss (gain)	263,349	269,544	26,881	30,180	290,230	299,724
Accrued benefit asset (liability), before Valuation Allowance	60,534	78,954	(171,874)	(150,380)	(111,340)	(71,426)
Total Valuation Allowance (VA)	(3,971)	(2,994)	-	-	(3,971)	(2,994)
Accrued benefit asset (liability), net of VA	56,563	75,960	(171,874)	(150,380)	(115,311)	(74,420)
Statement of Financial Position						
Deferred pension costs	58,403	77,531	-	-	58,403	77,531
Accounts payable (employee future benefits - current liability)	(22)	(22)	(4,829)	(5,541)	(4,851)	(5,563)
Employee future benefits (long-term liability)	(1,818)	(1,549)	(167,045)	(144,839)	(168,863)	(146,388)
Accrued benefit asset (liability), net of VA	56,563	75,960	(171,874)	(150,380)	(115,311)	(74,420)

*Pension plans include accrued benefit obligations and plan assets in respect of plans that are not fully funded of $1,015,495 and $822,953 respectively ($876,129 and $707,674 respectively for 2009).

UNIVERSITY OF GUELPH
EMPLOYEE FUTURE BENEFITS
For the Year Ended April 30, 2010
(in thousands of dollars)

c) Net Benefit Plan Costs

	Pension Plans		Other Benefit Plans		Total	
	2010	2009	2010	2009	2010	2009
Components of cost						
Current service cost (employer)	20,573	29,704	6,953	9,660	27,526	39,364
Interest cost	56,583	51,529	13,737	13,122	70,320	64,651
Actual return on assets	(135,336)	134,826	-	-	(135,336)	134,826
Actuarial (gains) losses	98,209	(165,682)	(2,600)	(61,385)	95,609	(227,067)
Past service costs	-	1,859	-	-	-	1,859
Difference between actual and expected return	87,402	(193,349)	-	-	87,402	(193,349)
Difference between actual and recognized actuarial gains (losses)	(81,207)	179,833	3,299	66,710	(77,908)	246,543
Difference between actual and recognized past service costs in year	3,084	1,240	-	-	3,084	1,240
Amortization of transitional obligation (asset)	(12,180)	(12,655)	4,278	4,278	(7,902)	(8,377)
Amortization of transitional increase in VA	-	3	-	-	-	3
Current increase (decrease) in VA	977	(1,555)	-	-	977	(1,555)
Net benefit cost	38,105	25,753	25,667	32,385	63,772	58,138

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

(in thousands of dollars)

d) Cash Payments

Total cash payments for employee future benefits for the 12-months ended January 31, 2010, 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 $20,877 (2009 $12,455).

e) Asset Allocation

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

	2010	2009
Percentage plan assets at January 31		
Equity securites	66.0%	56.9%
Debt securites	32.0%	34.6%
Cash and short term investments	2.0%	8.1%
Other	0.0%	0.4%
	100.0%	100.0%

f) Actuarial Valuations

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

Registered Pension Plans	August 1, 2007
Other Plans	August 1, 2009

For the University's registered pension plans, the next funding valuation is required to be prepared with an effective date no later than August 1, 2010.

(in thousands of dollars)

g) Significant Assumptions

The significant actuarial assumptions adopted are as follows:

	Pension Plans		Other Benefit Plans	
	2010	2009	2010	2009
For determining accrued benefit obligation at end of fiscal period:				
Discount rate	5.65%	6.45%	5.80%	6.60%
Rate of increase in future compensation	3.50-4.00%	3.50%-4.50%		
Rate of increase in national average wage	3.25%	3.25%		
Rate of increase in Consumer Price Index (CPI)	2.25%	2.25%		
Rate of post-retirement pension increases	0.50%	0.50%		
Expected long-term rate of return on plan assets	6.75%	6.75%		
For determining benefit cost during fiscal period:				
Discount rate	6.45%	5.15%	6.60%	5.20%
Rate of increase in future compensation	3.50-4.00%	3.50%-4.50%		
Rate of increase in national average wage	3.25%	3.25%		
Rate of increase in Consumer Price Index (CPI)	2.25%	2.25%		
Rate of post-retirement pension increases	0.50%	0.50%		
Expected long-term rate of return on plan assets	6.75%	6.75%		
Assumed health care cost trend rate at end of fiscal period:				
Dental Inflation			4.50%	4.50%
Initial health care cost trend rate			10.00%	10.00%
Annual rate of decline in health care cost trend rate			0.50%	0.50%
Year of initial decline in health care cost trend rate			2011	2010
Ultimate health care cost trend rate			5.00%	5.00%

(in thousands of dollars)

h) Sensitivity Analysis

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

	Pension Plans		Other Benefit Plans	
	Benefit Obligation 2010	Net Benefit Cost 2011	Benefit Obligation 2010	Net Benefit Cost 2011
	Increase (Decrease)		Increase (Decrease)	
Impact of discount rate change:				
1% increase	(127,497)	(16,403)	(32,564)	(2,136)
1% decrease	145,707	17,881	41,646	5,090
Impact of health care cost trend rate change:				
1% increase			40,317	7,530
1% decrease			(32,121)	(4,004)