UNIVERSITY OF GUELPH

Annual Financial Report

Summary of Financial Results and Audited Financial Statements for the fiscal year
May 1, 2011 to April 30, 2012

UNIVERSITY of GUELPH

CHANGING LIVES
IMPROVING LIFE

UNIVERSITY of GUELPH

BOARD OF GOVERNORS

Dick Freeborough
Chair, Board of Governors
University Secretariat
University of Guelph

Dear Readers:

This report presents the financial position and results of the operations of the University of Guelph for the 2011-2012 fiscal year. Approved by the Board of Governors, it is a key element of the University's commitment to public accountability and transparency.

In 2011-2012, the University successfully completed a multi-year plan to eliminate a $16-million structural deficit while enhancing institutional quality. This financial plan was linked to the first integrated plan to co-ordinate operating budgets across the academic and support areas of the institution more effectively. Full details and commentary on the results for the year are included in the report.

The Board of Governors brings a multidisciplinary approach to its responsibilities for oversight of the University affairs. The Board is comprised of a number of external and alumni members, representatives of students, faculty and staff and includes the Chancellor and Vice-Chancellor.

Our emphasis is to spend our time considering and discussing matters of strategic importance to the University as well as those pertaining to other important areas - primarily risk management, financial stewardship, and CEO and management oversight. To help in carrying this out effectively we have an active program of board education and regular presentations on matters of importance to the University and its operations.

In setting the tone at the top, our goal is to foster a culture of collaboration, transparency and the constant drive for excellence. Guelph has been described as the world's 'most caring University', and we hope that this aspect of our culture will continue.

The University's positive financial position demonstrates the continuing commitment of the Board of Governors in partnership with all members of the University community to financial prudence and risk management.

The knowledgeable and dedicated volunteers who served with me on the Board of Governors during 2011-2012 are listed in the closing pages of this publication, as are key members of the University's administrative team who supported and informed their work. I offer my gratitude and appreciation to each of them for their part in the University's achievements to date and for their continued resolve to address the challenges and opportunities before us in our shared pursuit of the University's mission.

To this end, on behalf of the Board, I wish to acknowledge the leadership of president Alastair Summerlee. His abilities in pursuing the University's mission include a commitment to the highest calibre educational experience for students, advancement of world-class researchers and innovators, broad-based engagement in community service and unwavering attention to fiscal responsibility. At the same time he is directly involved in teaching, research and fundraising at Guelph while also championing post-secondary education in general through his role as chair of the Council of Ontario Universities. For these efforts and his humanitarian work in Africa, the president has been recognized internationally. Most recently, he received an "Award of Highest Honour" from Soka University in Japan.

We can all take pride in the University of Guelph's reputation as a socially and globally responsible institution, one capable of achieving great things while facing uncertain support commitments and difficult financial choices. Key to Guelph's success on the road ahead will be a focus on addressing the needs and interests of its students, as these are paramount considerations in the choices still to be made.

The University's financial future is secured by a productive partnership between the Board of Governors and the University community. And its well-informed planning and budgeting process is ensuring the long-term term future of Guelph's high-quality teaching, research and outreach.

On behalf of the Board of Governors

Dick Freeborough, Chair, Board of Governors

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UNIVERSITY of GUELPH

OFFICE OF THE PRESIDENT

Alastair Summerlee
President, Vice-Chancellor
Executive Office
University of Guelph

Dear Readers:

This financial report is one of many operational reports prepared annually by the University of Guelph to demonstrate its commitment to being accountable for the use of public funds and revenue received from students and benefactors. While meeting government requirements for financial reporting, this report is also an important measure of our efforts to effectively manage and maximize resources critical to the University's long-term academic, research and service mission.

Following the success of the University's first integrated plan, management and senior academic staff are now engaged in a new five-year integrated planning cycle that will engage the whole University community. Guelph's second integrated plan will set institutional goals in a framework of good financial management to ensure the institution maintains a balanced MTCU (Ministry of Training, Colleges and Universities) budget. The University faces particular challenges to preserve and enhance its distinctive mission while also fulfilling its commitment to accessibility, quality and innovation.

Guelph continues to enjoy a favourable response from Ontario students. Applications to the University of Guelph were up 4.4 per cent for fall 2012 – double the system average. Applications to the University of Guelph-Humber were up 6.3 per cent. Total enrolment for the main Guelph campus and regional campuses now stands at 23,795; Guelph-Humber enrolment is 3,696.

Sponsored research also continues to rise, reaching $157.4 million in 2011-2012. This impressive level of support places the University of Guelph among Canada's top research universities. It reflects the University's ability to attract outstanding faculty and staff who enhance the educational experience for both undergraduate and graduate students and advance Guelph's reputation for both curiosity-driven and applied research.

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These measures of success are amplified by the University's fundraising efforts. The BetterPlanet Project capital campaign has reached 70 per cent of its $200-million goal.

Although scheduled to end in 2014, the campaign is already augmenting other sources of revenue to support priority needs such as student financial assistance, research chairs and infrastructure for teaching and research.

On behalf of the University of Guelph community, I would like to extend my gratitude to members of the Board of Governors for their judicious oversight and advice. The University community is grateful for the considerable number of volunteer hours that the governors contribute to enhancing the reputation of the University.

The University is equally indebted to members of the University community who work in partnership with the Board to oversee financial affairs and to Guelph's volunteer senators, students, employees, clients and other stakeholders who contribute to the integrated planning process. They support the University in a myriad of ways, and it is their commitment to the vision of the University of Guelph that will ensure its long-term success and its capacity to serve the generations to follow.

Alastair Summerlee, President

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University of Guelph
Annual Financial Report
For the fiscal year May 1, 2011 to April 30, 2012

A. INTRODUCTION

The following report summarizes the University of Guelph ("University") annual financial results for the year ended April 30, 2012 (referred to as "fiscal 2012"). This report consists of two major components. The first is management's discussion of major financial results for the year; the second presents the audited financial statements for fiscal 2012 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.

Fund Accounting: *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. 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. This report including the audited financial statements refers to these funds and their contribution to the combined financial results for the University over fiscal 2012.*

B. SUMMARY OF 2011/12 FINANCIAL RESULTS

Fiscal 2011/2012 reflected a modest growth in both revenues (3.0%) and expenses (2.6%) generating an annual overall net income of $26.0 million. The primary contributor to this net income was the continued growth in enrolment, particularly in undergraduates generating additional tuition and grant revenues relative to last year. Salaries which remained the largest component of expenses, increased by 2.6% while the largest annual percentage increase of an expense of 8.0% was recorded in scholarships and bursaries, reflecting both the increase in number of students and the continued improvement in disbursements from endowments.

Endowment investments ($228.2 million) experienced a flat return over the year with the increase in assets of $10.2 million due to increased contributions from donations. In terms of capital assets, the University continued to invest in its building and equipment capital with $81.2 million in acquisitions, $43 million of which were for new academic and athletics facilities and $17 million in major equipment purchases and renovations to its buildings and utilities infrastructure. About 45% or $38 million in new debt was incurred during the year to finance capital acquisitions with the balance of capital expenditures being funded mainly through external capital contributions or operating funds.

Of the non-current University liabilities, the largest increase was recorded under long term debt (a net increase of 18% or $29.3 million) which was incurred for major capital projects including main campus renovations. The unfunded status of post-employment benefits (pension and non-pension), while not recorded on the University's statements, continued to increase with a combined deficit (on an accounting basis) of $741.3 million ($484.3 million in 2011). The major driver of this increase was the continued decline in long term interest rates which are used to calculate future costs. During the year the University made $47.3 million in cash contributions to the pension plan and paid out $4.6 million for non-pension post-employment costs meeting all of its funding requirements for these plans.

Overall net assets of the University increased by $30.0 million to $305.6 million with the largest increases in internally restricted assets (funds appropriated from net income) of $16.5 million followed by a net increase in equity in capital assets of $11.6 million (net recorded value of capital assets such as building equipment after depreciation and debt). The University's total deficit increased $6.3 million to $259.4 million, all due to increased accounting charges for post-employment costs.

The following table provides key indicators of University activities and financial results over the past five years. The balance of this report includes further details on the major components of University financial operations and fiscal 2012 results.

Comparative University Financial Results Fiscal 2008 - 2012 **Table A**

	2008	2009	2010	2011	2012
Enrolment FTEs (University Degree Programs)	18,290	18,664	19,772	20,651	21,542
Faculty and Staff (Regular Budgeted Positions)	2,974	3,029	2,985	2,944	2,953
Revenues and Expenses:					
Total Revenues ($M)	$ 569.3	$ 620.8	$ 634.0	$ 678.4	$ 698.7
Total Expenditures ($M)	$ 580.2	$ 627.1	$ 636.6	$ 652.5	$ 669.2
Unrealized Gain(Loss) on Interest Rate Swaps	$ (1.2)	$ (4.3)	$ 3.9	$ (1.1)	$ (3.5)
Annual Surplus/(Deficit) ($M)	$ (12.2)	$ (10.7)	$ 1.3	$ 24.7	$ 26.0
Revenue year-over-year change	2%	9%	2%	7%	3%
- MTCU Operating Grants per FTE ($)	*$ 8,171*	*$ 8,393*	*$ 8,203*	*$ 8,275*	*$ 8,191*
Revenue Mix (% of Total Revenues)					
Provincial MTCU Operating Grants	26%	26%	26%	26%	26%
Tuition	18%	18%	20%	20%	22%
Endowment & Donations	2%	2%	2%	2%	2%
Expenditure year-over-year change	3%	8%	2%	2%	3%
Expense Mix (% of Total Expenses)					
Salaries	48%	48%	48%	48%	48%
Benefits	13%	14%	15%	14%	14%
Components of Net Assets:					
- Invested in Capital Assets ($M)	$ 131.2	$ 136.2	$ 143.9	$ 163.0	$ 174.6
- Endowed ($M)	$ 158.1	$ 140.1	$ 180.8	$ 210.4	$ 218.6
- Internally Restricted ($M)	$ 33.6	$ 76.8	$ 112.0	$ 155.3	$ 171.8
- Unrestricted Surplus (Deficit) ($M)	$ (102.2)	$ (165.5)	$ (210.8)	$ (253.1)	$ (259.4)
Total Net Assets	$ 220.7	$ 187.6	$ 225.9	$ 275.6	$ 305.6
Capital and Capital Debt:					
Total Debt	$ 167.7	$ 175.5	$ 179.1	$ 185.1	$ 204.2
- Total Debt per FTE ($)	*$ 9,166*	*$ 9,402*	*$ 9,057*	*$ 8,961*	*$ 9,481*
% Debt Service to Revenue	3.4%	2.3%	2.4%	2.5%	2.6%
% Debt to Revenue	29.4%	28.3%	28.2%	27.3%	29.2%
Interest Coverage Ratio [1]	1.67	1.98	2.29	4.61	7.12
Capital Acquisitions ($M)	$ 54.3	$ 69.1	$ 89.5	$ 105.9	$ 81.2
Provincial Capital Grants ($M)	$ 9.7	$ 13.6	$ 1.6	$ 1.5	$ 0.7
Endowments:					
- Externally Restricted ($M)	$ 151.9	$ 127.7	$ 169.9	$ 197.1	$ 207.5
- Internally Restricted ($M)	$ 20.0	$ 16.5	$ 19.4	$ 20.9	$ 20.8
Total Endowment Assets - Market Values	$ 171.9	$ 144.2	$ 189.3	$ 218.0	$ 228.2
- Total Endowment per FTE ($)	*$ 9,400*	*$ 7,724*	*$ 9,575*	*$ 10,557*	*$ 10,594*
Post-Employment Benefits:					
Pension Plans - Funded Status Surplus/(Deficit)	$ (121.6)	$ (165.3)	$ (188.5)	$ (220.7)	$ (415.2)
Other Benefit Plans -Funded Status Surplus/(Deficit)	$ (250.0)	$ (207.4)	$ (221.5)	$ (263.5)	$ (326.1)
Latest Valuation Date - Registered Plans	Aug-07	Aug-07	Aug-07	Aug-10	Aug-10
Latest Valuation Date - Other plans	Jan-07	Jan-07	Aug-09	Aug-09	Aug-09

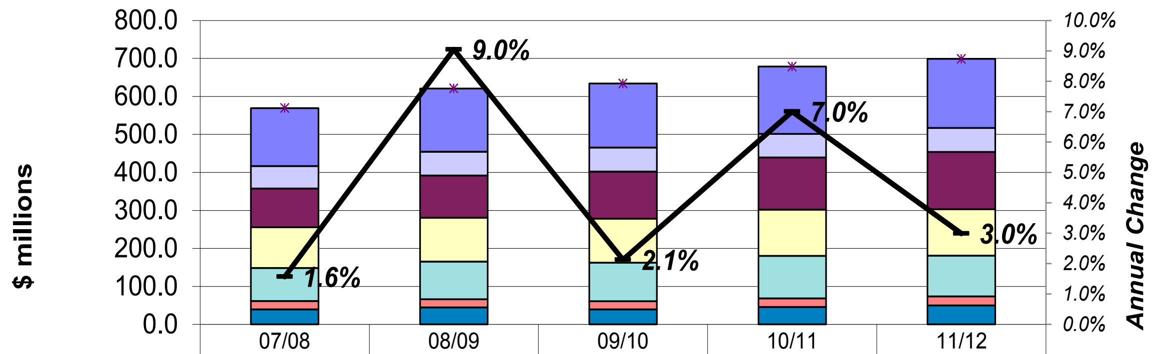
1) Interest Coverage Ratio is the net surplus/deficit excluding interest expense and amortization of capital contributions and depreciation, divided by interest expense.

C. REVENUES

University revenue from all sources was $698.7 million, an increase of 3.0% or $20.3 million from fiscal 2011 $678.4 million. Refer to Graph A. Most categories of revenue increased in fiscal 2012; the one exception being the Other Grants and Contracts that utilized slightly less funding when compared to fiscal 2011. Over the four years since fiscal 2008, total University revenues have grown by 23% or $129.4 million.

University Revenues
All Funds/Sources

Graph A



	07/08	08/09	09/10	10/11	11/12
Provincial MTCU	152.5	166.1	168.4	176.9	181.8
OMAFRA Agreement	59.3	62.9	63.1	62.3	62.9
Tuition	101.5	111.1	124.2	137.1	150.7
Sales of Goods and Services	107.4	115.2	116.0	121.9	122.1
Other Grants and Contracts	87.1	99.2	101.5	111.5	107.6
Amort. of Deferred Capital	21.6	21.5	21.4	22.5	23.3
All Other Revenues	39.9	44.8	39.4	46.2	50.3
Total	569.3	620.8	634.0	678.4	698.7
Annual Change	1.6%	9.0%	2.1%	7.0%	3.0%

The following sub-sections provide details on revenue changes between fiscal 2011 and fiscal 2012.

C.1 Provincial MTCU

MTCU (Ministry of Training, Colleges and Universities) provincial grants increased by $4.9 million or 2.7%. These revenues which make up 26% of total University revenues are provincial grants targeted for teaching and infrastructure support and capital projects. The $4.9 million increase in revenue in fiscal 2012 was an increase in total operating grant mainly as a result of graduate and undergraduate enrolment growth.

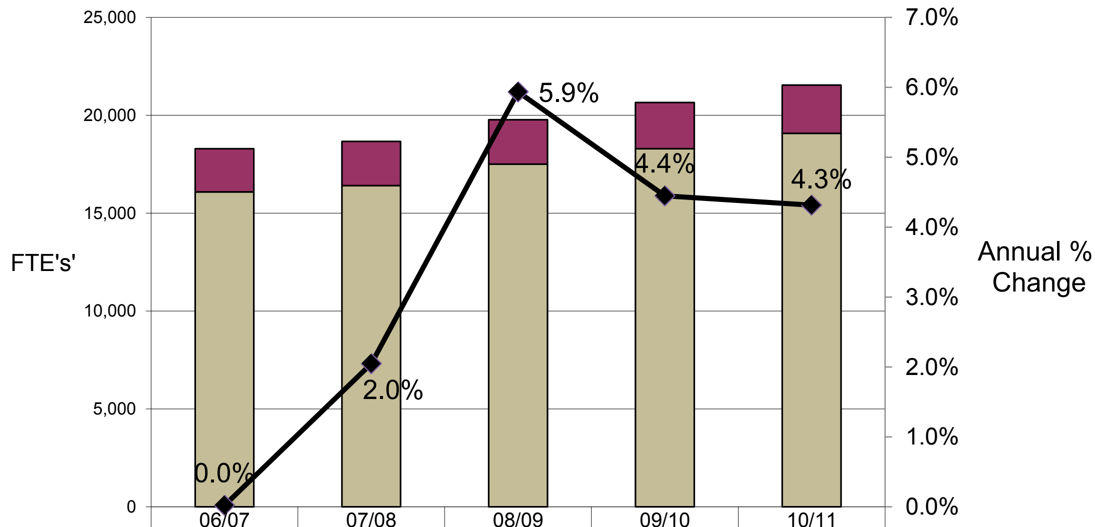
C.2 Tuition Revenue

Tuition Revenue (22% of total revenues) totaled $150.7 million in fiscal 2012 reflecting a $13.6 million or 9.9% total increase. Tuition Revenue consists of revenues earned for both undergraduate and graduate MTCU degree credit programs, MTCU diploma programs, and non-credit programs. Non-credit programs include a wide variety of courses such as general continuing education, training, and professional certification programs. In fiscal 2012 tuition rate increases for MTCU degree credit programs ranged from 0-8% and were consistent with MTCU guidelines and Board of Governors approval. Total MTCU degree credit enrolment increased by approximately 4% reflected in 21,542 FTEs (Full-Time Equivalents) as measured in the fall semester of 2011. Refer to Graph B.

Most of this increase occurred in undergraduate enrolment reflecting a combination of continued demand and the University's plan to increase enrolment in targeted areas (e.g., engineering and graduate) under the University's Integrated Planning process.

Full-Time Equivalent (FTE) Student Enrolment
(MTCU Credit Programs)

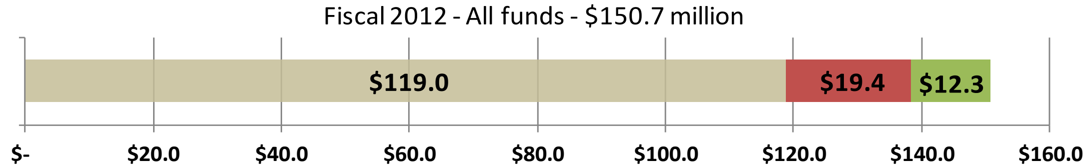
Graph B



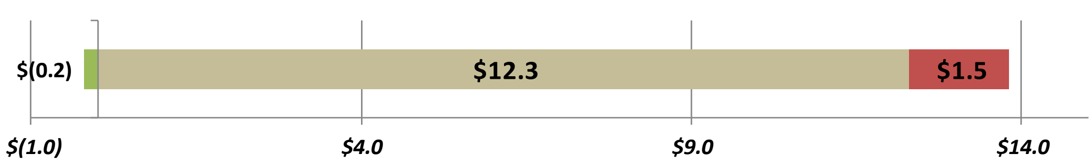
	06/07	07/08	08/09	09/10	10/11
Graduate	2,199	2,256	2,269	2,355	2,458
Undergraduate	16,091	16,408	17,503	18,296	19,084
Total	18,290	18,664	19,772	20,651	21,542
Annual Change	0.0%	2.0%	5.9%	4.4%	4.3%

The fiscal 2012 increase in total tuition revenue was the result of increases in both student enrolment and tuition rates charged for programs relative to fiscal 2011. Most MTCU degree credit (undergraduate and graduate) tuition levels are determined under strict provincial guidelines which limit increases for new and continuing students. The charts below present tuition revenue and changes in tuition revenue for the fiscal year by major type.

Total Components of Tuition Revenue
Fiscal 2012 - All funds - $150.7 million



Changes in Total Tuition Revenue
Fiscal 2011 to Fiscal 2012 - All Funds - $13.6 million



Undergrad Degree ***Graduate Degree*** ***Diploma and Non Credit***

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

Fiscal 2012 was the fourth year of a five year funding agreement with OMAFRA to provide major research and services programs focused in the sectors of agriculture, food, bio-products, and rural communities. In addition to provincial funding, OMAFRA activities at the University generate revenues at facilities supported under the agreement derived from the sale of goods (agricultural commodities), services (research facilities) and laboratory testing. These non-provincial sources of revenue provide 20% of total funding for OMAFRA-sponsored facilities and programs.

All revenues earned under the agreement with OMAFRA are recorded in the University's financial statements in the appropriate category such as "Ministry of Agriculture, Food and Rural Affairs Agreement", "Sales of Goods and Services" or "Other". Because of the restricted nature of provincial funding from 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 from related 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 within 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 2012, provincial revenues under the new OMAFRA Agreement remained relatively flat at $62.9 million when compared to 2011 when $62.3 million was recorded. This change ($0.6 million increase over 2011) in revenues 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 current agreement. It is expected that recorded revenue will increase as the full impact of the funding that has been received is realized.

C.4 Other Grants and Contracts

This revenue category records funding received from many external governments, organizations or individuals that is mainly restricted for specific purposes. The major designation is funding for research projects. Research activities in this category are comprised of about 5,000 individual accounts that record both revenues and operating expenses for each grant, contract or specific purpose grant. (Funds and related expenses restricted for capital purposes are reported under the Capital Fund.)

Major sources of research funding include federal research grants such as the Tri-Councils[1], CFI (Canada Foundation for Innovation), provincial infrastructure funding and contracts from industry for sponsored-research projects. In terms of research funds actually received in fiscal 2012, $157.4 million was received and allocated to departments ($152.9 million in 2011). Refer to Graph C.

In fiscal 2012, revenue recognized[2] for financial statement purposes decreased by $3.9 million, reflecting an overall decrease in research project expenses and transfers relative to fiscal 2011.

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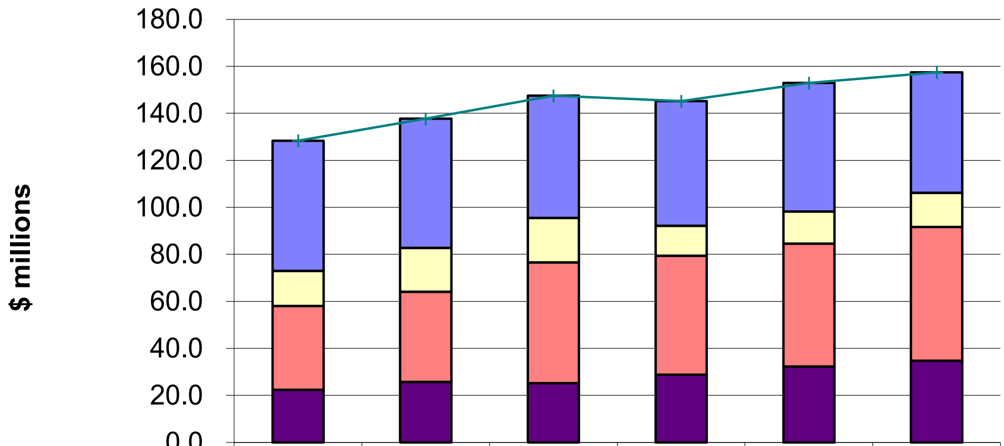
[1]Includes NSERC (Natural Sciences and Engineering Research Council), SSHRC (Social Sciences and Humanities Research Council), CIHR (Canadian Institute of Health Research), CRC (Canada Research Chair), and NCE's (Networks of Centres of Excellence)

[2]Research funding is restricted for specific purposes by external sponsors, and under CICA accounting principles, cannot be recognized as revenue in the financial statements until the designated expenses are incurred. Therefore, while actual funding (cash) may be received in a fiscal year, it may not be recognized or recorded as revenue until future years. In the interim, the funding is recorded as a Deferred Contribution on the University's Statement of Financial Position (refer to page 30 for the accounting policy on revenue recognition).

Research Funding Allocated by Major Source **Graph C**



	2007	2008	2009	2010	2011	2012
Federal	55.4	54.9	52.0	53.1	54.7	51.2
Other Ontario	15.0	18.7	18.9	12.7	13.6	14.5
OMAFRA Agreement	35.7	38.4	51.4	50.6	52.3	57.0
Other	22.3	25.7	25.2	28.8	32.3	34.7
Total	128.4	137.7	147.5	145.2	152.9	157.4

C.5 Sales of Goods and Services

This category remained relatively constant increasing by $0.2 million or less than 0.5% in fiscal 2012. The largest increase was a $2.5 million change in Ancillary Enterprises revenues as a result of general price increases and increasing enrolment numbers in fiscal 2012. This increase was offset by OMAFRA related goods and services (i.e. laboratory services, and sales of produce & animals) decreasing $2.4 million. The balance reflects small increases and decreases in a large variety of activities such as user fees charged for OVC (Ontario Veterinary College) teaching hospital services (particularly the small animal clinic), printing services, and recoveries of miscellaneous service costs.

C.6 All Other Revenues

"All Other Revenues" (on Graph A) summarizes revenues from Donations ($10.7 million), Investment Income ($5.8 million) and Other ($33.8 million) revenue shown on Statement 2 of the Audited Financial Statements.

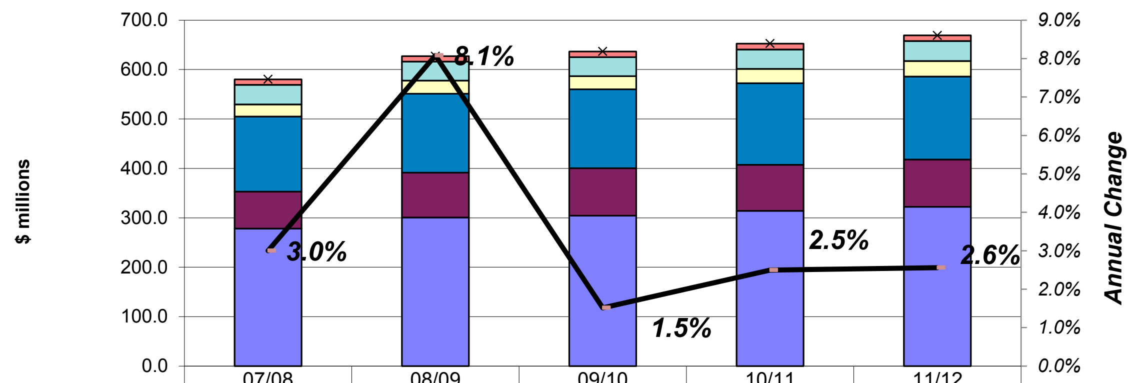
In fiscal 2012, combined revenues from these sources increased by $4.1 million or 8.9% compared to 2011. There was an increase of $1.8 million in donations and the balance of the net increase in this category was from a large variety of miscellaneous sources reflecting increased levels of activities.

D. EXPENSES

Total University Expenses from all funds increased by 2.6% or $16.7 million to $669.2 million compared to fiscal 2011. Most categories of expense saw modest changes relative to fiscal 2011. Refer to Graph D.

Graph D

University Expenses
All Funds/Sources



	07/08	08/09	09/10	10/11	11/12
Interest	11.0	10.9	11.3	11.8	11.4
Capital Asset Amortization	39.9	38.4	38.5	39.3	40.5
Scholarships and Bursaries	24.3	26.7	26.5	28.9	31.3
Other Operating	152.1	159.6	160.1	165.2	167.9
Benefits	74.7	90.8	95.9	93.1	95.8
Salaries	278.2	300.7	304.3	314.2	322.3
× Total	580.2	627.1	636.6	652.5	669.2
Annual Change	3.0%	8.1%	1.5%	2.5%	2.6%

The following sub-sections provide details on expense changes between fiscal 2011 and fiscal 2012.

D.1 Salaries

Salaries expense from all funds (48% of total expenses) increased by a net 2.6% or $8.1 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 2011, the one-time costs for retirement or resignation incentives decreased by $0.9 million to $4.6 million ($5.5 million in fiscal 2011) contributing a 0.3% decrease in total salaries relative to fiscal 2011. 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. The increase in salaries was due almost entirely to negotiated salary increases for all major employee groups.

D.2 Benefits

Benefits expense (14% of total expenses) increased by $2.7 million or 2.9% to $95.8 million. The employer cost of benefits consists of a wide variety of negotiated benefits (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 benefit pension plans that provide eligible employees pension coverage. Further post-employment benefits include extended health and dental coverage which is provided to retirees under a cost sharing arrangement.

Accounting Presentation of Employee Benefit Costs:

Employee benefit costs can be classified in two major categories; costs of post-employment benefits (pensions and non-pension benefits for current and future retirees) and those benefits provided for current employees (statutory and negotiated).

Non Post-employment benefit costs are funded and expensed in the audited statements essentially on a cash basis each year. In fiscal 2012, these benefits (total of $35.8 million) recorded a net increase of $3.5 million. Increases (relative to 2011) contributing to this change include increased costs of premiums for workers compensation, negotiated health benefit plans and payments into the PBGF (Pension Benefit Guarantee Fund).

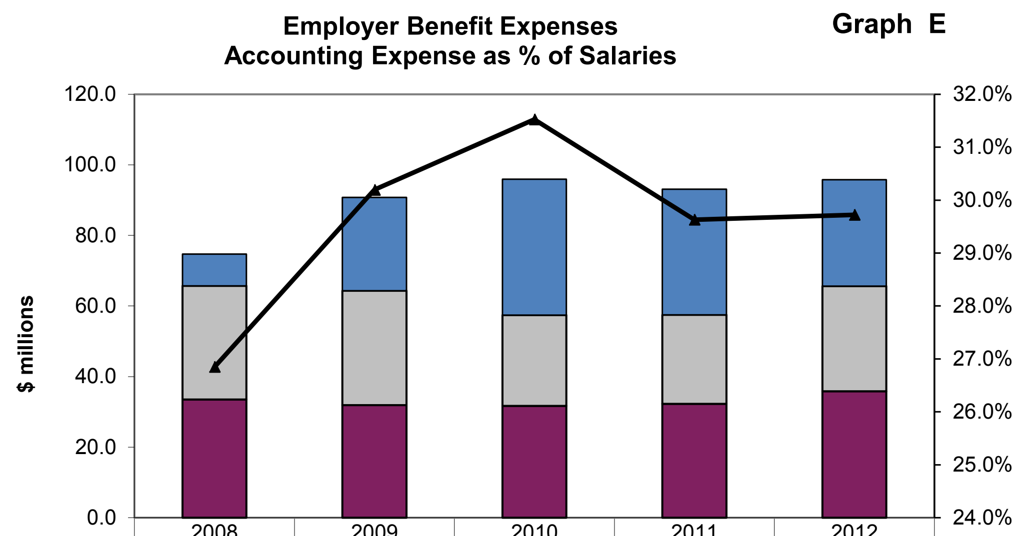
Post-employment benefit costs are charged as expenses as they are earned (accrued), not as they are actually paid (cash). This method requires that the committed obligations for future payments be estimated and recorded at their present value to reflect the total future obligation that exists at the date of the financial statements. While application of this accounting 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.

- ***Post-employment Benefits – Defined Benefit Pension Plans:*** The University is the legal sponsor of three pension plans. In Ontario, cash requirements 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 required pension valuations over the past several years (2006, 2007, 2010), the University has made major cash contributions totaling $160 million over the past 5 years (refer to Graph F).

- ***Post-employment Benefits – Non-Pension:*** 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 2012, non-pension post-employment expenses increased 18.3% from $25.2 million to $29.8 million and liabilities increased 13.1% from $193.1 million to $218.3 million relative to fiscal 2011. 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 2012, cash contribution for these plans increased 15% to $4.6 million from fiscal 2011.

Refer to Note 6 of the Audited Financial Statements for more detail on the calculation of post-employment expenses.

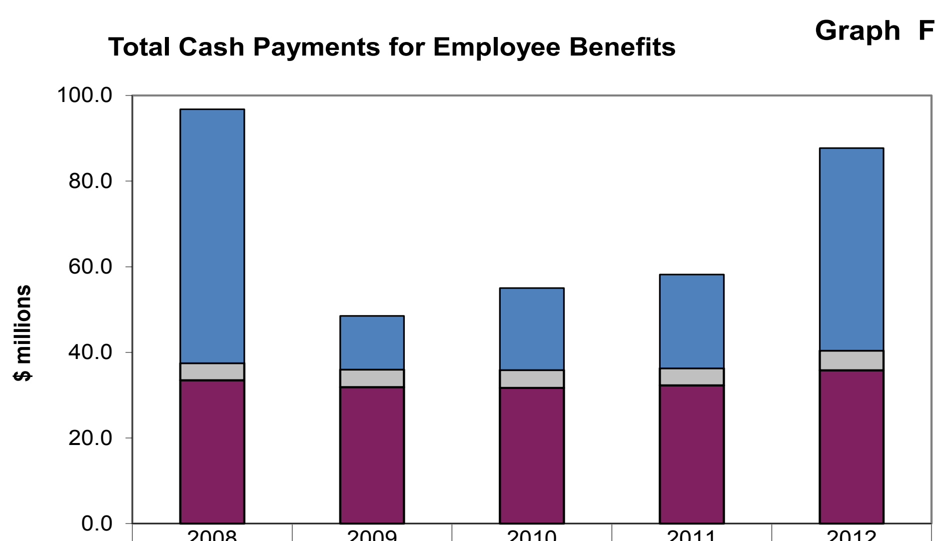
Overall the cost of employee benefit expenses is now 29.7% of salaries (29.6% in fiscal 2011). Refer to Graph E. The largest component of employer benefit costs are those for post-employment (pension, health and dental).



	2008	2009	2010	2011	2012
Pension	9.0	26.5	38.5	35.6	30.2
Non-Pension Post-Employment	32.2	32.4	25.7	25.2	29.8
Non Post-Employment	33.5	31.9	31.7	32.3	35.8
Total	74.7	90.8	95.9	93.1	95.8
% of Salaries	26.9%	30.2%	31.5%	29.6%	29.7%

Cash Payments for All Employee Benefits:

As noted above, accounting for post-employment benefits requires the recognition of an estimate of the future cash obligations. In terms of cash only payments in fiscal 2012, the University paid $87.7 million in total for employee benefits (refer to Graph F). In terms of trends, cash payments are increasing in most categories and are expected to continue to increase reflecting increasing cash requirements, especially for post-employment costs.



	2008	2009	2010	2011	2012
Pension	59.3	12.5	19.1	21.9	47.3
Non-Pension Post-Employment	4.0	4.1	4.2	4.0	4.6
Non Post-Employment	33.5	31.9	31.7	32.3	35.8
Total	96.8	48.5	55.0	58.2	87.7

D.3 Other Operating Expenses

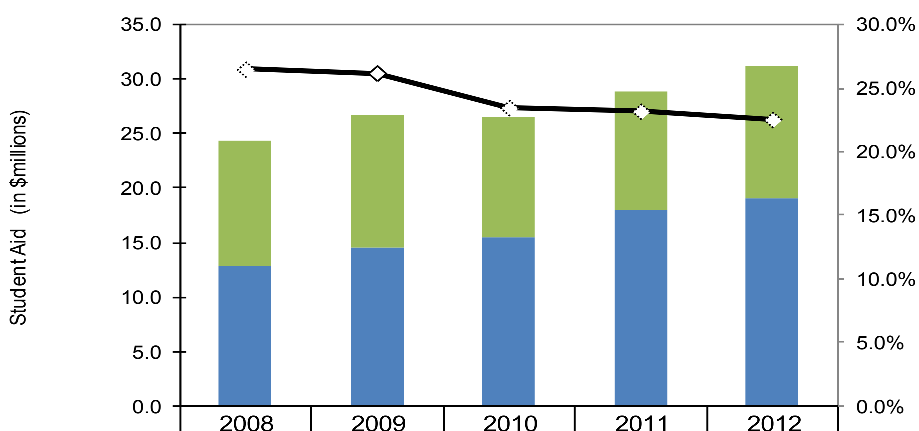
Other Operating Expenses[3](25% of total expenses) captures a wide variety of University expenses ranging from travel to campus utilities. This category increased by $2.7 million or 1.6% in fiscal 2012. One of the largest components of the increase in fiscal 2012 was ancillary related expenditures that rose by $1.4 million reflecting an increase in student enrolments. Other operating categories that experienced significant increases were maintenance costs related OMAFRA infrastructure which increased by $1.7 million and supplies which increased by $1.8 million in fiscal 2012. Also of note is that travel expenditures were relatively stable in year as they decreased slightly by $0.3 million in fiscal 2012. Overall campus utilities expenses increased by $0.3 million (total net costs of $20.7 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. Most other operating categories experienced minor increases. The overall increase in Operating Expenses was offset by a $2.5 million reduction in research related expenditures in fiscal 2012. Minor (non-capital) renovations decreased slightly by $0.2 million which is a result of a focus on capital-type investments (recorded a capital assets) versus smaller renovations and repairs (which are expensed as incurred).

D.4 Scholarships and Bursaries

Total University spending on Scholarships and Bursaries increased by $2.3 million or 8.0% to $31.2 million ($28.9 million in fiscal 2011). Refer to Graph G.

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

Graph G



	2008	2009	2010	2011	2012
Trust and Endowments	11.5	12.1	11.0	11.0	12.1
Operating	12.8	14.6	15.5	17.9	19.1
Total Student Aid	24.3	26.7	26.5	28.9	31.2
% of Revenue	26.5%	26.2%	23.5%	23.2%	22.5%

Scholarships and Bursaries have two main sources of funding: the Operating Fund and externally restricted funds, e.g., grants, donations and endowments. Under University policy, spending from endowments is curtailed when investment returns are insufficient to protect endowment capital. With the poor market conditions of 2008 and 2009, restrictions in spending resulted in reduced spending from endowments. Action was taken to

[3] *"Other Operating Expenses" (on Graph D) summarizes expenses of Travel ($14.9 million), Minor Renovations and Repairs ($4.6 million) and "Operating Expenses" ($148.4 million) shown on Statement 2 of the Audited Financial Statements.*

increase contributions from the Operating fund to make up total spending (in the form of needs-based bursaries). With the improvements in markets and increased donor contributions, funding from non-Operating fund sources is increasing. Student aid funding is now approximately 22.5% (23.2% in 2011) of total credit tuition revenues. Of the $31.2 million, 61% was funded from the Operating Fund and 39% from trust (restricted) funds, including endowments.

D.5 Interest Expense

Even though overall debt increased (refer to section G), interest expense decreased by $0.4 million or 3.5% to $11.4 million as the net result of a repayment of a $13 million relatively high-interest rate mortgage early in the fiscal year.

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

In fiscal 2008, the University implemented a new accounting policy related to "financial instruments"[4] consistent with requirements of the CICA. 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 Operations (income statement) each year. These are non-cash entries that reflect changes in the market values of interest rate swaps measured on April 30th each year. As market interest rates decline, the fair value of variable to fixed interest rate swaps decline. Conversely if interest rates increase, gains would be recognized under this policy.

To the extent that the University holds these swaps to maturity, these reductions will not be realized. Interest rate 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 loss of $3.5 million ($1.1 million in 2011).

E. 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[5] (investments of $81.7 million) and the General Endowment Fund (investments of $146.5 million). Refer to Graph H on the following page. 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

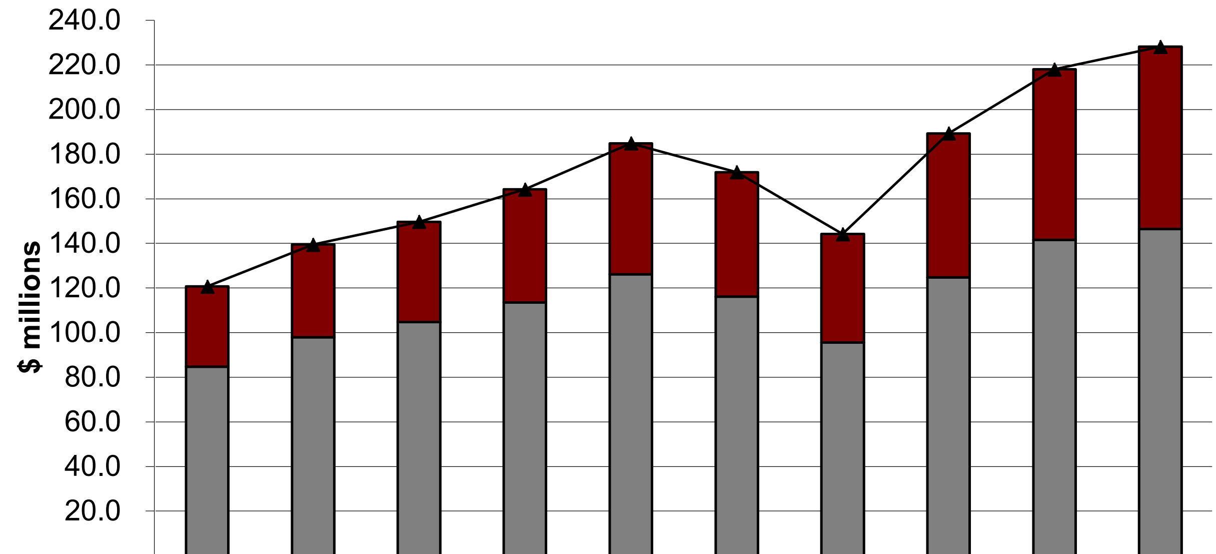
[4] *"Financial instruments" for the purposes of the University's statements include all investments, receivables, payables, loans or derivatives (interest rate swaps or forward contracts).*

[5] *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.Management of the fund was delegated by the Board of Governors to the Board of Trustees.*

investment returns to provide inflation protected spending. For most[6] 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 over the past four years in fiscal 2012.

Graph H

University Endowment Assets
Market Values at April 30th



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Heritage	36.0	41.6	45.0	50.7	58.7	55.7	48.6	64.6	76.5	81.7
General	84.7	97.9	104.7	113.5	126.2	116.2	95.6	124.7	141.5	146.5
Total	120.7	139.5	149.7	164.2	184.9	171.9	144.2	189.3	218.0	228.2

Within the General Endowment Fund there are just over 1000 individual accounts reflecting individual spending objectives established by both external donors and the Board of Governors. In total, the market value at April 30th of all endowment investments had increased by $10.2 million or 4.7% from $218.0 million in 2011 to $228.2 million in 2012. The increase in market value is the result of positive investment returns of 0.6% (11.5% in fiscal 2011) in addition to capital additions of $9.9 million, net of funds allocated for disbursements. Capital additions consist of external donations and transfers directed for specific purposes. A more complete presentation on Endowment Fund activities including performance and disbursements can be found at http://www.uoguelph.ca/finance/report/endowment-reports.

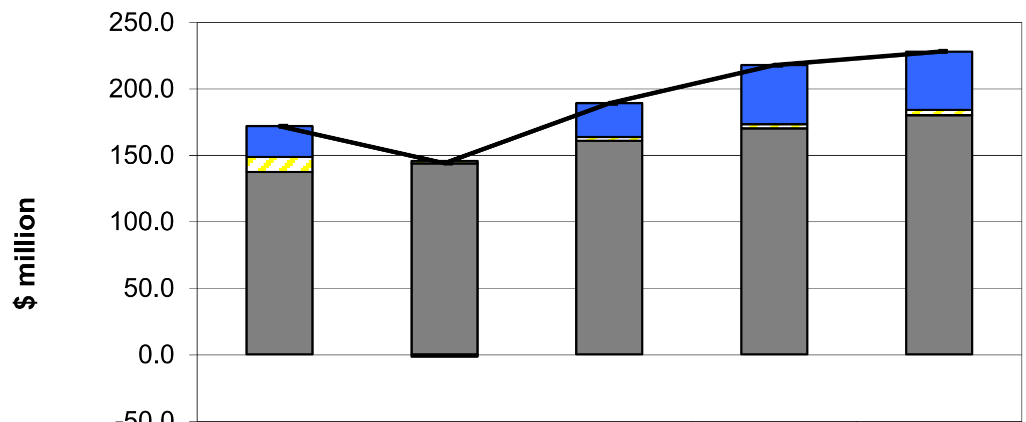
Endowment Spending: The difference between actual total market returns and the spending rate (referred to as Capital Appreciation) is accumulated each year in the endowment fund to provide for capital protection, growth, and if required, to supplement annual returns in meeting annual disbursements. As a result of 2008 and 2009 negative investment returns much of the accumulated capital protection of endowments was eroded (refer to Graph I on the following page). Consequently, in fiscal 2011 and 2012, 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.

[6] *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.*

While the impact of restricting endowment spending in 2011 and 2012 had some relatively minor impact on University operations, e.g., endowed faculty chairs, the major impact was on student assistance (57% of all University endowments are allocated to student assistance). 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 MTCU Operating Budget for certain University commitments for multi-year scholarships and to provide needs based assistance where possible. While the fiscal 2011 and 2012 recoveries in endowments were 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 2013. Consequently, the University will continue to limit disbursements from certain accounts to ensure capital contributions and longer term spending capacity are protected.

Allocation of University Endowment Investments **Graph I**

(Including Heritage and General Endowment Funds)



	2008	2009	2010	2011	2012
Capital Appreciation	23.2	-1.7	25.6	44.5	44.0
Funds Available	11.3	2.1	2.8	3.2	4.1
Donated Principal	137.4	143.8	160.9	170.3	180.1
Total	171.9	144.2	189.3	218.0	228.2

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

F. CAPITAL

F.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(h) on Page 29 for the specific accounting policy). The charge to expenditures is called Capital Asset Amortization. In fiscal 2012 this charge increased by $1.3 million or 3.2% to $40.5 million from 2011 as a direct result of capital acquisitions.

F.2 Capital Contributions and Acquisitions

Capital acquisitions spending continued at significant levels ($81.2 million) under a number of major programs including a Board of Governor's approved (2007-2011 and 2012-2016) Capital Renewal Financing Plan for spending on critical building and campus utilities infrastructure. 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. Borrowing for capital expenses is limited as much as possible by using a combination of any 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.)

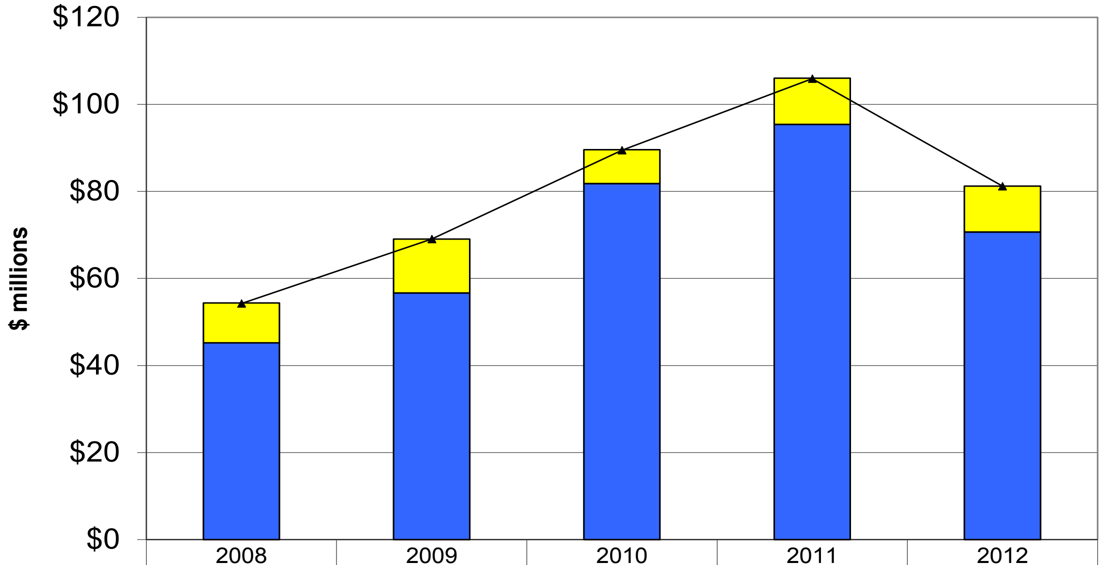
Over the course of the fiscal year the University completed a number of major capital acquisitions (funds spent) funded from a variety of sources or financed with new external debt. The following is a description of the major capital activity that occurred during the year. Although this activity is not apparent in the audited financial statements, it is reflected in the cash flow and the additions and deletions related to capital assets. Capital funding received is funding received in the current fiscal year 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 fiscal 2012**,** the net recorded value of capital assets increased by $40.7 million ($66.7 million in 2011), reflecting expenditures or "acquisitions" on capital and construction-in-progress in several building/renovation projects of $81.2 million less capital asset amortization of $40.5 million.

- **Capital acquisitions ($81.2 million, refer to Graph J**):
  - $43.0 million in major buildings consisting of:
    - $14.7 million for the Athletics Field House and Multiplex,
    - $12.2 million for the Expansion to the School of Engineering,
    - $8.6 million for the Addition to the Centre for Biodiversity Genomics,
    - $7.5 million in total for the Animal Cancer Centre, an OVC facility and a Hospitality Services project;
  - $17.3 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;
  - $9.6 million on Board approved Five-Year Capital Renewal Financing Plan. Total actual costs to date under this plan are $56.2 million;
  - $7.6 million on the Student Housing Services' portion of the Five-Year Capital Renewal Financing Plan. Total spending to date under this plan is $37.9 million;
  - A balance of $3.7 million made up of several smaller projects.

Major Capital Acquisitions by Fund

Graph J



	2008	2009	2010	2011	2012
Ancillary	9.1	12.4	7.7	10.6	10.5
Capital	45.2	56.7	81.8	95.4	70.7
Total	54.3	69.1	89.5	105.9	81.2

These acquisitions are 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 funding received (total $12.5 million):**
  - $1.0 million ($1.0 million in 2011) 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, deferred maintenance costs for buildings and campus utilities infrastructure will continue to be an ongoing major priority[7]. All funding is allocated to deal first with the highest priority items such as safety and emergency repairs;
  - $2.6 million ($20.2 million in 2011) 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 were $33.6 million and the project was completed by October 31, 2011;
  - $5.6 million was allocated from CFI and Ontario research infrastructure funds to support a number of ongoing capital projects.
  - $2.2 million ($2.0 million in 2011) from MTCU-Graduate Education Expansion in support of the expansion to the School of Engineering project;
  - $0.5 million was received from Student Energy Retrofit Funds to support the cost of electrical retrofit projects throughout the University;
  - $0.6 million was received in donations designated for capital projects.

[7] *The University has a Board-approved five year financing plan (2012-2016) 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.*

G. LONG TERM DEBT AND INTEREST

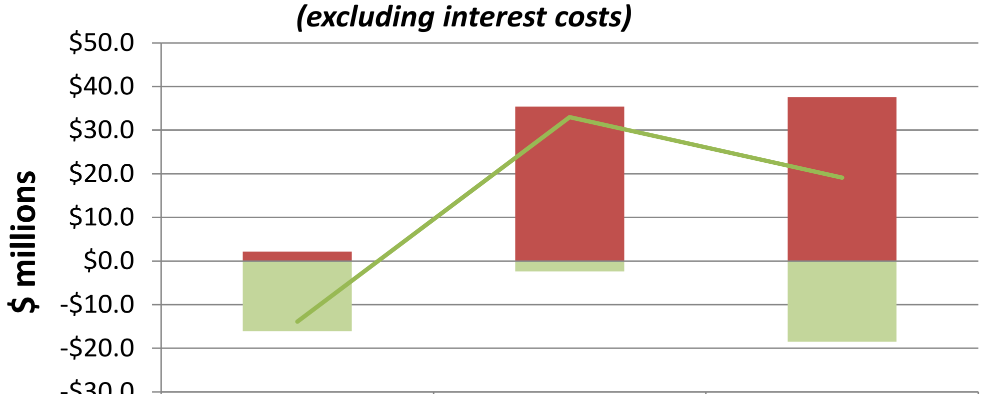
Starting in 2002, the University initiated a number of major capital projects to meet its strategic planning objectives to maintain and, where possible, improve existing facilities. Actions included investing in the high priority deferred maintenance and to provide new space to meet the needs of additional 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 fiscal 2007, as deferred maintenance increased coupled with insufficient capital grant funding, the University initiated an internal multi-year planning process to begin to address the backlog of major capital deferred maintenance for its campus infrastructure (buildings and utilities delivery systems). This process consists of a contiguous five year plan ("Five-Year Capital Renewal Financing Plan") which identifies spending for high priority projects in both residences and main campus facilities. Each year the Board of Governors reviews and approves the Plan including the areas for highest priority during the year. While funding for these projects has included available provincial capital grants and revenues from operations, at this time, the majority of the expenditures have been financed with new external debt.

In fiscal 2012, the $37.6 million in new capital debt was secured through bank loans using a 15 year interest rate swap to fix the University's interest cost. Refer to Graph K. Of this $22.7 million was for the Engineering Expansion project, and $15.1 million was for the Five-Year Capital Renewal Financing Plan. $35.6 million of the new debt will be serviced from the Operating Fund and $2.2 million funded by the Ancillary Enterprise unit, Student Housing Services. $18.5 million in debt was repaid most of which was the result of repayment of a $13.1 million loan on a student residence.

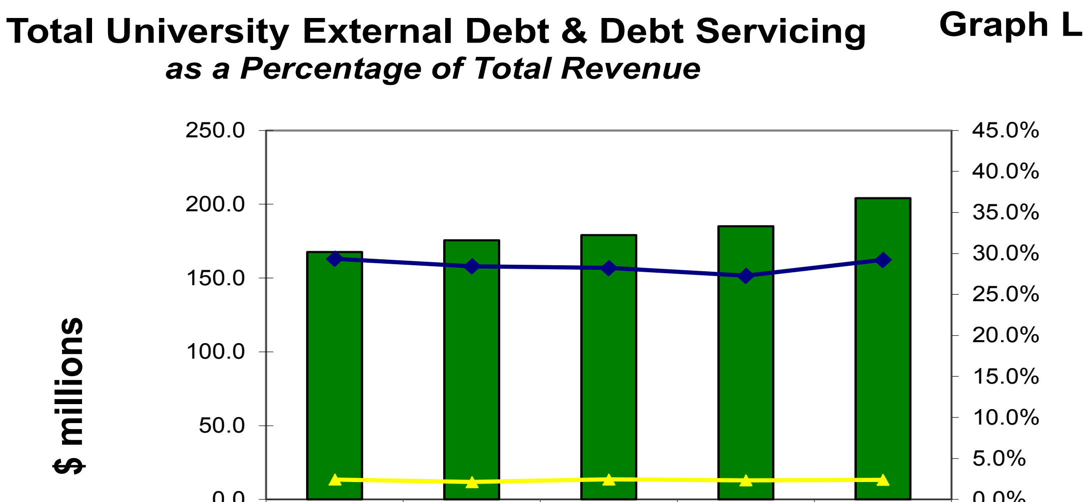
University External Debt
Principal Additions and Repayments
(excluding interest costs)

Graph K



	Ancillary	Operating	Total
New Debt	$2.2	$35.4	$37.6
Repayments	$(16.1)	$(2.4)	$(18.5)
Net Change	$(13.9)	$33.0	$19.1

Total external[8] debt and debt servicing as a percentage of total University revenue are 29.2% (27.3% in 2011) and 2.4% (2.3% in 2011) respectively. Refer to Graph L. Both percentages are within University policy limits of 45% and 4.5%, respectively. The increase in total debt in fiscal 2012 reflects the new debt ($37.6 million) partially offset by a total debt repayment of $18.5 million.[9]



	2008	2009	2010	2011	2012
Total Debt	167.7	175.5	179.1	185.1	204.2
% debt to revenues	29.4%	28.4%	28.2%	27.3%	29.2%
% debt servicing to revenues	2.4%	2.1%	2.4%	2.3%	2.4%

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

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;

1. **Invested in Capital Assets** which indicates the University's "equity" (asset value less debt) in capital assets;
2. **Endowed** which indicates the size of total endowment accounts (assets, commitments);
3. **Internally Restricted** which indicates funds set aside for specific purposes by the University;
4. **Unrestricted Surplus (Deficit)** which records the net operating position of the University.

H.1 Summary of Changes in Net Assets - All Funds

Total University income received in fiscal 2012 from all funds was $698.7 million. Total expenses were $669.2 million, plus $3.5 million in Unrealized losses on Interest Rate Swaps. The net result was a surplus of $26.0

[8]*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 in Note 13 on Page 41 of this report under Internally Restricted Net Assets in the appropriate fund (Capital or Ancillary).*

[9]*Total external debt repayment excludes internal "sinking" fund investments ($8.2 million, market value, in fiscal 2012) that have been set up to retire interest-only debt. Refer to Note 5 on Page 32 "Investments Held for Debt Repayment".*

million ($24.8 million in 2011). In order to complete the total calculation of changes in Net Assets, the impact of the changes to "Endowment Contributions" must be considered. In 2012 Endowment Contributions totaled $4.0 million (a net result of new contributions and investment returns less funds allocated for spending). The resulting $30.0 million net increase in Net Assets, across all funds, 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 2011/2012:

2011/2012 UNIVERSITY RESULTS
Summary of All Funds ($millions)

	Opening Net Assets (Deficit)	2011/2012 Results	Closing Net Assets (Deficit)
Total University Revenues		698.7	
Total University Expenses		669.2	
Unrealized Gain(Loss) on Interest Rate Swap		-3.5	
Revenue Less Expenses		26.0	
Add: Endowment Contributions		4.0	
Increase (Decrease) in Net Assets		30.0	
UNIVERSITY NET ASSETS:			
Invested in Capital Assets	163.0	11.6	174.6
Endowed Funds	210.4	8.2	218.6
Internally Restricted	155.3	16.5	171.8
Unrestricted Operating	(255.1)	(2.1)	(257.2)
Unrestricted All Other Funds	2.0	(4.2)	(2.2)
Total Net Assets	**275.6**	**30.0**	**305.6**

H.2 Changes in Net Assets - By Fund

The following notes summarize the distribution of changes to Net Assets (Statement 1, Page 24) based on fiscal 2012 financial results:

1. **Invested in Capital Assets,** increased $11.6 million ($19.1 million increase in fiscal 2011). 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.

2. **Endowment Funds,** 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 2012 increased by $8.2 million ($29.6 million increase in fiscal 2011). This net increase consisted of:
   - $4.2 million ($4.7 million in 2011) in transfers to endowments all of which was transferred to the Heritage Fund from real estate net proceeds;
   - $5.8 million ($5.6 million in 2011) in additional capital, mainly from donations, received during the year;

- $1.8 million ($19.3 million income in 2011) endowed investment loss, which is the net of $1.9 million earned less the amount provided for fiscal 2012 spending of $3.7 million.

(Note: Recorded Endowed Net Assets of $218.6 million is that portion of endowed investments of $228.2 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.)

3. **Internally Restricted:** (refer to Note 13 on Page 41) – 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[10], research, capital replacement expenses or contingencies.

In total, the University's Internally Restricted funds increased by $16.5 million ($43.2 million increase in fiscal 2011). Much of this significant increase was attributable to the MTCU portion of the Operating Fund.

- **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 $6.4 million to $158.1 million consists mainly of a combined increase of $7.2 million in the "Equipment, Supplies and Contingency" and "Employee Benefits" categories reflecting allocations for the purchase of equipment, supplies and services mainly by operational units (colleges and departments). This increase was partially offset by a reduction in the "University Pension Contributions" category of $0.8 million, moving this fund to $45.0 million. The University will be allocating these funds over the next four years to supplement the base Operating Budget allocation (currently $23 million) for pension contributions under the provincial government's Stage 1 Temporary Solvency Relief legislation[11].
- **Internally Restricted Assets - Capital Fund:** This account records funds designated for specific capital purposes (excluding 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 projects. The net increase of $16.1 million consists of $12.8 million in new internal financing, $1.5 million in funds designated to complete projects in fiscal 2012 and $1.8 million in additional sinking funds (designated to retire debt due in future years).
- **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 decrease in this fund of $10.9 million consists of a $13.1 million decrease in sinking funds for Student Housing Services and a net repayment of internal financing of $2.2 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 $4.9 million reflects new funds that have been designated but not spent for these purposes.

[10] *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.*

[11] *Under this legislation the University has until its next valuation date (August 1, 2013) to implement structural changes to its pension plans to reduce the future cost of the Plans to the University. This period is referred to a "Stage 1". If successful in achieving the legislation-prescribed "savings" target, the University would have the ability to amortize any solvency deficits over 10 years (instead of the normal 5 years as is provided for under normal provincial requirements) starting on August 1, 2014). This 10 year amortization period is referred to as "Stage 2".*

4. **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 $6.3 million to $259.4 million ($253.1 million in fiscal 2011). Components of this increase were:
   - **Operating Fund:** recorded an increase in the deficit of $2.1 million consisting of:
     - An increase of $8.1 million in the accounting charge for post-employment benefits. 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, 2010). The University has met all of its cash obligations for post-employment benefits.
     - A decrease in the deficit of $6.0 million in repayment of restructuring charges under the University's multi-year plan to eliminate the 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). The current year decrease represents a $6.0 million repayment reducing the outstanding deficit from $47.1 million to $41.1 million in fiscal 2012. The fourth year of the plan is complete and the total deficit is consistent with the University's 2011/2012 MTCU Operating Budget approved by the Board of Governors on April 20, 2011. This document is available at: http://www.uoguelph.ca/finance/reports/university-budgets.
   - **Ancillary Fund:** Most Ancillary Enterprise units have as their primary object to fund all expenses including capital debt costs from revenues. In fiscal 2012, unrestricted net assets for the Ancillary Fund decreased by $2.9 million in fiscal 2012. The majority of this decrease is caused by a $2.2 million unrealized unfavorable fair market value adjustment on long term debt contracts in Student Housing Services (the impact of accounting for financial instruments, refer to section D.6).
   - **Capital Fund:** an increase in the deficit of $1.3 million to the Capital Fund as a result of the accumulated market value adjustments for interest rate swaps.

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).

Overall results were positive relative to budget, reflecting institutional and other revenues all finishing the year greater than budgeted estimates. On the expense side, salary costs including $2.5 million in restructuring costs, and the expected increase in pension contributions above budget of $20.8 million (funded by prior year savings appropriated for pension solvency deficit contributions) exceeded initial budgeted allocations. In all, the MTCU Operating results had a net change in fund balance of $6.0 million representing the required repayment of accumulated prior years' Multi Year Plan costs in the Opening Unrestricted Deficit balance. All other funds were appropriated as "Internally Restricted Net Assets" for future purposes including future pension contributions, budgetary contingencies and outstanding expenditure commitments such as capital projects.

2011/2012 MTCU Operating Fund Results TABLE B
(in thousands of dollars)

	2011/12 Budget	2011/12 Actual		Variance
Revenue				
MTCU Grants	180,049	180,942		893
Tuition (Credit & Non-Credit)	149,383	150,754		1,371
Sales of Goods and Services	26,979	27,237		258
Investment Income	891	1,003		112
Other Revenue	17,361	22,752		5,391
Research Indirect Revenues and Recoveries	30,250	31,817		1,567
Institutional Recoveries	19,391	21,307		1,916
Uof G Share of Guelph Humber Surplus	3,300	8,182		4,882
Total Revenue	427,604	443,994		16,390
Expenses				
Salaries	221,964	227,724		(5,760)
Benefits	57,309	56,760		549
Operating	67,952	66,250		1,702
Utilities	22,560	20,699		1,861
Scholarships and Bursaries	18,240	18,059		181
Other Institutional Transfers	22,692	18,725		3,967
Unallocated Multi-Year Target	(3,966)			(3,966)
Total Expenses	406,751	408,217		(1,466)
University Contingency and Carryforwards				
University Contingency - General	10,853			10,853
University Contingency - Multi Year Plan	44,570	2,540		42,030
Budgeted Carryforwards for Dept Operations	48,170			48,170
Total University Contingency and Carryforwards	103,593	2,540		101,053
Revenue Less Expenses	**(82,740)**	**33,237**		**115,977**
Add: Internally Restricted Net Assets - Beginning	88,740	151,662		62,922
less: Transfer for Pension Contributions		(20,794)		(20,794)
Total Funds Available	6,000	164,105		158,105
Less: Internally Restricted Net Assets - Ending	-	158,105	**Note #1**	158,105
Net Change in Fund Balance	6,000	6,000	**Note #2**	-

Note #1 - See Audited Financial Statements - Note 13

Note#2:

Unrestricted Surplus (Deficit) - See Audited Financial Statements- Note 14	
Opening - Unrestricted Surplus (Deficit)	(255,134)
Repayment of Restructuring Costs	6,000
Accrual for Employee Future Benefits	(8,044)
University of Guelph Humber	9
Closing - Unrestricted Surplus (Deficit)	(257,169)

October 24, 2012

Independent Auditor's Report

To the Governors of
the University of Guelph

We have audited the accompanying financial statements of the University of Guelph, which comprise the statement of financial position as at April 30, 2012 and statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
95 King Street South, Suite 201, Waterloo, Ontario, Canada N2J 5A2
T: +1 519 570 5700, F: +1 519 570 5730, www.pwc.com/ca

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Guelph as at April 30, 2012 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, 2012
(in thousands of dollars)

	2012	2011
ASSETS		
Current		
Cash and Cash Equivalents (Note 4)	165,585	125,324
Short-term Investments (Note 5)	49,028	74,488
Accounts Receivable	24,998	29,443
Inventories	3,155	3,553
Prepaid Expenses	1,581	2,839
	244,347	235,647
Deferred Pension Costs (Note 6)	62,560	45,031
Real Estate Projects in Progress	2,630	1,810
Long-term Accounts Receivable	103	211
Investments (Note 5)	254,795	235,810
	320,088	282,862
Capital Assets (Note 7)	753,994	713,290
	1,318,429	**1,231,799**
LIABILITIES		
Current		
Accounts Payable and Accrued Charges	55,462	56,161
Unrealized Loss on Interest Rate Swaps (Note 8)	12,643	9,120
Current Portion of Long-term Debt (Note 8)	7,407	17,543
Current Portion of Deferred Revenue and Contributions (Note 10)	37,517	33,958
	113,029	116,782
Employee Future Benefits (Note 6)	214,604	189,811
Long-term Debt (Note 8)	196,837	167,517
Deferred Revenue and Contributions (Note 10)	113,290	116,216
Deferred Capital Contributions (Note 11)	375,097	365,901
	1,012,857	**956,227**
NET ASSETS		
Invested in Capital Assets (Note 12)	174,653	162,977
Internally Restricted (Note 13)	171,783	155,293
Unrestricted Surplus (Deficit) (Note 14)	(259,416)	(253,073)
Endowed (Note 15)	218,552	210,375
	305,572	**275,572**
	1,318,429	**1,231,799**

Commitments and Contingencies (Notes 20 & 21)

(See accompanying notes)

Dick Freeborough

Dick Freeborough, Chair

Alastair Summerlee, President

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Statement 2

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED APRIL 30, 2012

(in thousands of dollars)

	2012	2011
REVENUE		
Ministry of Training, Colleges and Universities	181,753	176,936
Ministry of Agriculture, Food and Rural Affairs Agreement	62,888	62,293
Tuition (Credit and Non-Credit)	150,754	137,102
Donations (Note 16)	10,673	8,849
Sales of Goods and Services	122,097	121,901
Investment Income (Note 17)	5,821	6,323
Other Grants and Contracts	107,624	111,539
Amortization of Deferred Capital Contributions (Note 11)	23,315	22,442
Other	33,840	31,019
	698,765	678,404
EXPENSES		
Salaries	322,285	314,203
Benefits	95,821	93,124
Travel	14,929	15,196
Operating	148,384	145,264
Minor Renovations and Repairs	4,610	4,752
Interest (Note 8)	11,427	11,836
Scholarships and Bursaries	31,261	28,921
Capital Asset Amortization	40,510	39,257
	669,227	652,553
Unrealized Loss on Interest Rate Swaps (Note 8)	(3,523)	(1,126)
Revenue Less Expenses	26,015	24,725

(See accompanying notes)

Statement 3

UNIVERSITY OF GUELPH
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED APRIL 30, 2012
(in thousands of dollars)

	Invested in Capital Assets	Internally Restricted	Unrestricted Surplus (Deficit)	Endowed	**2012** Total	**2011** Total
Net Assets, Beginning of Year	162,977	155,293	(253,073)	210,375	275,572	225,923
Revenue Less Expense (Excess of Expenses over Revenue)	(17,195)	-	43,210	-	26,015	24,725
Net Change in Net Assets Invested in Capital Assets	28,871	-	(28,871)	-	-	-
Net Change in Internally Restricted Net Assets	-	16,490	(16,490)	-	-	-
Increase (Decrease) in Accumulated Endowment Investment Earnings	-	-	-	(1,763)	(1,763)	19,328
Endowment Contributions	-	-	-	5,748	5,748	5,596
Transfer to Endowments	-	-	(4,192)	4,192	-	-
Net Assets, End of Year	174,653	171,783	(259,416)	218,552	305,572	275,572

(See accompanying notes)

Statement 4

UNIVERSITY OF GUELPH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 2012

(in thousands of dollars)

	2012	2011
OPERATING ACTIVITIES		
Revenue Less Expenses (Statement 2)	26,015	24,725
Add (Deduct) Non-cash Items:		
Capital Asset Amortization	40,510	39,257
Amortization of Deferred Capital Contributions	(23,315)	(22,442)
(Increase) Decrease in Unrealized Investment Income	3,177	(745)
Increase in Unrealized Loss on Interest Rate Swaps	3,523	1,126
Decrease in Long-term Receivables	108	68
(Increase) Decrease in Deferred Pension Costs	(17,529)	13,372
Increase in Employee Future Benefits	24,793	20,948
(Increase) Decrease in Non-cash Working Capital	4,582	(22,238)
	61,864	54,071
FINANCING ACTIVITIES		
Proceeds from Long-term Debt	37,678	9,983
Repayment of Long-term Debt	(18,494)	(4,005)
Deferred Capital Contributions Received During the Year	32,511	64,551
Increase (Decrease) in Deferred Revenue and Contributions	633	(33,570)
	52,328	36,959
INVESTING ACTIVITIES		
Net Purchase of Investments	(1,397)	(23,066)
Net Realized Endowment Investment Earnings	2,932	5,133
Endowment Contributions	5,748	5,596
Acquisition of Capital Assets	(81,214)	(105,910)
	(73,931)	(118,247)
Change in Cash & Cash Equivalents	40,261	(27,217)
CASH & CASH EQUIVALENTS, BEGINNING OF THE YEAR	125,324	152,541
CASH & CASH EQUIVALENTS, END OF THE YEAR	165,585	125,324

(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) 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
Real Estate Division
Student Housing Services
Parking Services and Transportation Planning
University Centre

iv. The Research and Trust Fund includes those expendable funds provided by benefactors and external contracts, the expenditure of which is restricted to a specific purpose. Also included is that portion of 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. For most endowments, only the accumulated investment income earned, after having provided for inflation protection and, in specific cases, growth may be expended for the designated purpose. Endowment earnings available for expenditure are recorded in the Research and Trust Fund as part of internally restricted net assets.

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.

(b) 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.

(c) Short-term Investments

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

(d) Accounts Receivable

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

(e) Long-term Investments

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

(f) Joint Venture

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

(g) Inventory Valuation

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

(h) 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

(i) 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.

(j) 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.

(k) 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.

(l) 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.

In accordance with 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 on 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.

(m) 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.

(n) Recently Issued Accounting Pronouncements

In December 2010, the Canadian Accounting Standards Board issued a comprehensive set of accounting standards applicable to not-for-profit organizations. The standards are effective for fiscal years beginning on or after January 1, 2012 and require retrospective applications, except for certain exemptions and exceptions contained within the standards. The University of Guelph is currently reviewing the impact of the adoption of these standards.

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 quoted market prices. The fair value of derivatives has been estimated using quoted market 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 as an Unrealized Gain (Loss) on Interest Rate Swaps.

(b) Interest rate risk

The University is exposed to interest rate risk on its variable rate debt. The University minimizes this risk by entering into interest rate exchange (swap) contracts with 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 8)

(c) Credit risk

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

(in thousands of dollars)

4. CASH AND CASH EQUIVALENTS

	2012	2011
Cash	12,665	6,847
Money Market Funds	123,800	94,214
Government of Canada Treasury Bills	29,120	24,263
	165,585	125,324

5. INVESTMENTS

	2012	2011
Short-term Investments		
Money Market Funds	39,741	38,061
Government of Canada Bonds	-	20,157
Province of Ontario Bonds	-	6,675
Guelph-Humber Equity	9,287	9,595
	49,028	74,488
Long-term Investments		
Government of Canada Bonds	23,962	11,213
Province of Ontario Bonds	5,024	4,291
Canadian Equities	52,842	55,527
Canadian Fixed Income	63,172	57,430
Foreign Equities	109,795	107,349
	254,795	235,810

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:

	2012	2011
Investments Held for Debt Repayment		
Money Market Funds	3,148	3,119
Provincial Bonds	5,024	10,966
	8,172	14,085
General and Heritage Endowment Funds		
Cash and Short-term Notes	12,919	8,485
Canadian Equities	42,337	44,739
Canadian Fixed Income	63,172	57,430
Foreign Equities	109,794	107,349
	228,222	218,003

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:

	2012	2011
General Endowment	146,550	141,544
Heritage Fund	81,672	76,459
	228,222	218,003

(in thousands of dollars)

6. EMPLOYEE FUTURE BENEFITS

a) Description of Plans

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

b) Accrued Benefit Obligations (ABOs) and Plan Assets

The University measures the 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	
	2012	2011	2012	2011	2012	2011
Change in Benefit Obligation						
Benefit obligation - beginning of measurement period	1,137,932	1,024,540	263,509	221,523	1,401,441	1,246,063
Current service cost (employer)	27,271	26,591	9,230	7,633	36,501	34,224
Interest cost	59,813	57,540	14,332	12,929	74,145	70,469
Employee contributions	13,208	12,868	-	-	13,208	12,868
Employee transfers	259	314	-	-	259	314
Plan amendments	(1,795)	92	-	-	(1,795)	92
Actuarial loss (gain)	155,928	68,150	43,482	25,599	199,410	93,749
Benefits paid	(57,719)	(52,163)	(4,451)	(4,175)	(62,170)	(56,338)
Benefit obligation - end of measurement period	1,334,897	1,137,932	326,102	263,509	1,660,999	1,401,441
Change in Plan Assets						
Market value of plan assets - beginning of measurement period	917,195	836,087	-	-	917,195	836,087
Actual return on plan assets, net of expenses	3,491	98,744	-	-	3,491	98,744
Employer contribution	43,238	21,345	4,451	4,175	47,689	25,520
Employee contribution	13,208	12,868	-	-	13,208	12,868
Employee transfers	259	314	-	-	259	314
Benefits paid	(57,719)	(52,163)	(4,451)	(4,175)	(62,170)	(56,338)
Market value of plan assets - end of measurement period	919,672	917,195	-	-	919,672	917,195
Reconciliation of funded status						
Funded status - surplus (deficit)	(415,225)	(220,737)	(326,102)	(263,509)	(741,327)	(484,246)
Employer contributions after measurement date	9,063	5,344	1,347	1,207	10,410	6,551
Unamortized transitional obligation (asset)	(14,869)	(27,049)	12,827	17,105	(2,042)	(9,944)
Unamortized past service costs	11,986	16,767	-	-	11,986	16,767
Unamortized net actuarial loss (gain)	473,300	273,876	93,598	52,113	566,898	325,989
Accrued benefit asset (liability), before Valuation Allowance	64,255	48,201	(218,330)	(193,084)	(154,075)	(144,883)
Total Valuation Allowance (VA)	(4,159)	(5,308)	-	-	(4,159)	(5,308)
Accrued benefit asset (liability), net of VA	60,096	42,893	(218,330)	(193,084)	(158,234)	(150,191)

*Pension plans include ABOs and plan assets in respect of plans that are not fully funded of $1,325,559 and $906,162 respectively ($1,129,190 and $903,100 respectively for 2011).

(in thousands of dollars)

	Pension Plans		Other Benefit Plans		Total	
	2012	2011	2012	2011	2012	2011
Statement of Financial Position						
Deferred pension costs	62,560	45,031	-	-	62,560	45,031
Accounts payable (employee future benefits - current liability)	(20)	(22)	(6,170)	(5,389)	(6,190)	(5,411)
Employee future benefits (long-term liability)	(2,444)	(2,116)	(212,160)	(187,695)	(214,604)	(189,811)
Accrued benefit asset (liability), net of VA	60,096	42,893	(218,330)	(193,084)	(158,234)	(150,191)

c) Net Benefit Plan Costs

	Pension Plans		Other Benefit Plans		Total	
	2012	2011	2012	2011	2012	2011
Components of cost						
Current service cost (employer)	27,271	26,591	9,230	7,633	36,501	34,224
Interest cost	59,813	57,540	14,332	12,929	74,145	70,469
Actual return on assets	(3,491)	(98,744)	-	-	(3,491)	(98,744)
Actuarial (gains) losses	155,928	68,150	43,482	25,599	199,410	93,749
Past service costs	(1,795)	92	-	-	(1,795)	92
Difference between actual and expected return	(58,386)	42,894	-	-	(58,386)	42,894
Difference between actual and recognized actuarial gains (losses)	(141,038)	(53,421)	(41,485)	(25,232)	(182,523)	(78,653)
Difference between actual and recognized past service costs in year	4,781	2,983	-	-	4,781	2,983
Amortization of transitional obligation (asset)	(12,180)	(12,180)	4,278	4,278	(7,902)	(7,902)
Current increase (decrease) in VA	(1,149)	1,337	-	-	(1,149)	1,337
Net benefit cost	29,754	35,242	29,837	25,207	59,591	60,449

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

d) Cash Payments

Total cash payments for employee future benefits for the 12-months ended January 31, 2012, 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 $47,689 (2011 $25,520).

e) Asset Allocation

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

	2012	2011
Percentage plan assets at January 31		
Equity securites	68.0%	69.0%
Debt securites	29.0%	28.0%
Cash and short term investments	3.0%	3.0%
	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, 2010
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, 2013.

(in thousands of dollars)

g) Significant Assumptions

The significant actuarial assumptions adopted are as follows:

	Pension Plans		Other Benefit Plans	
	2012	2011	2012	2011
For determining accrued benefit obligation at end of fiscal period:				
Discount rate	4.40%	5.30%	4.55%	5.40%
Rate of increase in future compensation	3.50-4.00%	3.50-4.00%	n/a	n/a
Rate of increase in national average wage	3.25%	3.25%	n/a	n/a
Rate of increase in Consumer Price Index (CPI)	2.25%	2.25%	n/a	n/a
Rate of post-retirement pension increases	0.50%	0.50%	n/a	n/a
Expected long-term rate of return on plan assets	6.75%	6.75%	n/a	n/a
For determining benefit cost during fiscal period:				
Discount rate	5.30%	5.65%	5.40%	5.80%
Rate of increase in future compensation	3.50-4.00%	3.50-4.00%	n/a	n/a
Rate of increase in national average wage	3.25%	3.25%	n/a	n/a
Rate of increase in Consumer Price Index (CPI)	2.25%	2.25%	n/a	n/a
Rate of post-retirement pension increases	0.50%	0.50%	n/a	n/a
Expected long-term rate of return on plan assets	6.75%	6.75%	n/a	n/a
Assumed health care cost trend rate at end of fiscal period:				
Dental Inflation	n/a	n/a	4.50%	4.50%
Initial health care cost trend rate	n/a	n/a	8.50%	9.00%
Annual rate of decline in health care cost trend rate	n/a	n/a	0.50%	0.50%
Year of initial decline in health care cost trend rate	n/a	n/a	2012	2012
Ultimate health care cost trend rate	n/a	n/a	5.00%	5.00%

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 2012	Net Benefit Cost 2013	Benefit Obligation 2012	Net Benefit Cost 2013
	Increase (Decrease)		Increase (Decrease)	
Impact of discount rate change:				
1% increase	(174,912)	(21,583)	(47,937)	(5,533)
1% decrease	201,440	23,710	61,307	6,979
Impact of health care cost trend rate change:				
1% increase	n/a	n/a	59,351	10,601
1% decrease	n/a	n/a	(47,285)	(8,254)

(in thousands of dollars)

7. CAPITAL ASSETS

a) Details

	2012		
	Cost	Accumulated Amortization	Net Book Value
Land	8,761	-	8,761
Land improvements	30,266	12,689	17,577
Buildings	819,749	216,095	603,654
Furniture and equipment	244,688	162,228	82,460
Construction in progress	34,084	-	34,084
Computer equipment	34,543	31,605	2,938
Library and art collection	17,520	13,000	4,520
	1,189,611	435,617	753,994

	2011		
	Cost	Accumulated Amortization	Net Book Value
Land	8,761	-	8,761
Land improvements	28,888	11,967	16,921
Buildings	747,365	209,954	537,411
Furniture and equipment	235,660	149,853	85,807
Construction in progress	56,230	-	56,230
Computer equipment	32,717	29,298	3,419
Library and art collection	17,096	12,355	4,741
	1,126,717	413,427	713,290

b) Change in Net Book Value

	2012	2011
Balance, beginning	713,290	646,637
Acquisition of capital assets	81,214	105,910
Capital asset amortization	(40,510)	(39,257)
Balance, ending	753,994	713,290

c) Insured Values

	2012 Net Book Value	2012 Insured Value	2011 Net Book Value	2011 Insured Value
Buildings	603,654	1,719,338	537,411	1,535,628
Furniture, equipment and library books	89,918	872,161	93,967	681,959
Art and artifacts collection	1	36,991	1	36,869

(in thousands of dollars)

8. LONG-TERM DEBT

a) Details

	Interest Rate %	Issue Date	Due Date	2012 Total	2011 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	5,749	6,283
Toronto Dominion Bank	4.54	10-Apr-08	10-Apr-23	2,197	2,397
Toronto Dominion Bank	4.89	13-Mar-09	13-Mar-24	7,985	8,650
Canadian Imperial Bank of Commerce	4.96	1-May-06	2-May-16	2,573	3,178
Bank of Montreal	7.63	16-Oct-00	15-Jun-25	29,100	29,600
Royal Bank of Canada	4.85	23-Mar-10	24-Mar-25	6,745	7,265
Royal Bank of Canada	5.02	1-May-10	1-May-25	8,888	9,558
Royal Bank of Canada	3.84	3-Oct-11	2-Oct-26	36,489	-
				99,726	66,931
Leases payable					
Ontario Student Housing Corp.	6.13	1-Jan-69	1-Dec-18	422	469
Canada Mortgage and Housing Corp.	5.88	1-Jan-69	1-Dec-18	3,695	4,111
				4,117	4,580
Mortgages payable					
Canada Mortgage and Housing Corp.	5.38	1-Jan-67	1-Dec-16	401	469
Ontario Housing Corp.(interest only)	9.86	1-Dec-92	1-Jun-11	-	13,080
				401	13,549
				204,244	185,060
Current Portion				(7,407)	(17,543)
				196,837	167,517

The interest rates disclosed above are the effective rates as a result of entering into interest rate swaps as discussed in Note 8 c).

During the current fiscal year, the University of Guelph made principal repayments in the amount of $18,494 (2011 $4,005) and incurred $11,427 (2011 $11,836) 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
2013	7,407	11,663	19,070
2014	7,103	11,327	18,430
2015	7,338	10,955	18,293
2016	7,675	10,600	18,275
2017	7,265	10,197	17,462
	36,788	54,742	91,530
Thereafter	167,456		
	204,244		

(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 has entered into interest rate exchange (swap) contracts with the Toronto Dominion Bank, Bank of Montreal, Royal Bank of Canada and Canadian Imperial Bank of Commerce in order to convert variable-rate borrowings to fixed rates. Under the terms of these agreements, the University pays a fixed rate and receives a variable rate on each swap's notional principal amount. The swap transactions are completely independent and have no direct effect on the relationship between the University and its lenders.

Note that on April 16, 2012 the University entered into an interest rate exchange (swap) contract with the Royal Bank of Canada (RBC) which has an effective date of September 5, 2012 and an initial notional amount of $29,100. As a result there is no debt instrument underlying this contract at April 30, 2012. The market value of the contract at April 30, 2012 is an unrealized loss of $345 as shown below.

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

		2012		**2011**	
	Due Date	Notional Amount	Gain/(Loss)	Notional Amount	Gain/(Loss)
Toronto Dominion	20-Dec-22	5,739	730	6,271	(530)
Toronto Dominion	10-Apr-23	2,200	239	2,400	(151)
Toronto Dominion	13-Mar-24	8,000	273	8,667	166
Royal Bank of Canada	24-Mar-25	6,750	(613)	7,270	(255)
Royal Bank of Canada	1-May-25	8,831	(865)	9,499	(407)
Royal Bank of Canada	2-Oct-26	36,540	(2,274)	-	-
Royal Bank of Canada	5-Sep-27	29,100	(345)	-	-
Canadian Imperial Bank of Commerce	2-May-16	2,550	(172)	3,150	(210)
Bank of Montreal	15-Jun-25	29,038	(9,616)	29,538	(7,733)
			(12,643)		(9,120)

(in thousands of dollars)

9. 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 policies.

Capital borrowing is undertaken by the administration only after review and approval by the Board of Governors and in accordance with Board approved policy. 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.

	2012	2011
Investments		
Endowments	228,222	218,003
Expendable	232,419	215,351
Externally Restricted	8,767	2,267
Debt		
Interest Bearing Debt	204,244	185,060
	673,652	620,681

10. DEFERRED REVENUE AND CONTRIBUTIONS

Deferred revenues and contributions are monies received in the current and prior years for services to be provided in a future year, and for restricted expenditures in a future year, respectively.

	2012	2011
Changes in Deferred Revenue and Contributions are as follows:		
Balance, beginning of year	150,174	183,744
Revenue and Contributions received during the year	195,073	218,359
Revenue and Contributions recognized in the year	(194,440)	(251,929)
Balance, end of year	150,807	150,174
Less: Current Portion	37,517	33,958
	113,290	116,216

(in thousands of dollars)

11. 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.

	2012	2011
Changes in Deferred Capital Contributions are as follows:		
Balance, beginning of year	365,901	323,792
Contributions received during the year	32,511	64,551
Amortization of deferred capital contributions	(23,315)	(22,442)
Balance, end of year	375,097	365,901

12. INVESTED IN CAPITAL ASSETS

	2012	2011
Capital assets (net book value)	753,994	713,290
Less:		
Long-term debt	(204,244)	(185,060)
Deferred capital contributions	(375,097)	(365,901)
Add: unused ancillary debt	-	648
Invested in capital assets	174,653	162,977

Change in Invested in Capital Assets

	2012	2011
Capital asset amortization	(40,510)	(39,257)
Amortization of deferred capital contributions	23,315	22,442
	(17,195)	(16,815)
Acquisition of capital assets	81,214	105,910
Repayment of long-term debt	18,494	4,005
Increase (decrease) in unused ancillary debt	(648)	534
Increase in long-term debt	(37,678)	(9,983)
Deferred capital contributions received during the year	(32,511)	(64,551)
	28,871	35,915
	11,676	19,100

(in thousands of dollars)

13. INTERNALLY RESTRICTED NET ASSETS

	Balance, Beginning of Year	Transfer To (From) Internally Restricted	Balance, End of Year
Operating Fund			
Equipment, Supplies and Contingency	88,740	6,613	95,353
Self Insured Losses	1,000	-	1,000
Employee Benefits	16,133	624	16,757
University Pension Contributions	45,789	(794)	44,995
	151,662	6,443	158,105
Capital Fund			
Capital Projects and Renovations	4,576	415	4,991
Minor Renovations	1,308	1,091	2,399
Funds Held for Debt Repayment	6,353	1,819	8,172
Internally Financed Projects	(53,710)	12,733	(40,977)
	(41,473)	16,058	(25,415)
Ancillary Enterprises Fund			
Student Housing Services	500	-	500
Student Housing Funds Held for Debt Repayment	13,054	(13,054)	-
Student Housing Internally Financed Projects	(10,204)	2,193	(8,011)
Parking Services Internally Financed Projects	(1,257)	592	(665)
Hospitality Services Internally Financed Projects	(3,547)	(627)	(4,174)
University Centre	264	14	278
	(1,190)	(10,882)	(12,072)
Research and Trust Fund			
Research and Trust	46,294	4,871	51,165
TOTAL	155,293	16,490	171,783

(in thousands of dollars)

14. UNRESTRICTED SURPLUS (DEFICIT)

	2012	2011
Operating Fund		
Unfunded Deficit & Restructuring Costs	(41,100)	(47,100)
Accrual for Employee Future Benefits	(216,925)	(208,881)
University of Guelph-Humber	856	847
	(257,169)	(255,134)
Capital Fund	(1,637)	(275)
Ancillary Enterprises	(610)	2,336
Balance, end of year	(259,416)	(253,073)

The University's total Unrestricted Deficit of the Operating Fund at the end of fiscal 2012 is $257,169 and consists of:

- **Unfunded Deficit & Restructuring Costs**: The University has an unfunded accumulated operating budget deficit of $21,100 and restructuring costs (employee buy-out programs) of $20,000. This deficit has been approved by the Board of Governors as part of a multi-year plan to eliminate the University's structural deficit by 2012. This deficit is to be repaid at a rate of not less than $6,000 per year.
- **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 balance represents the University's share of the invested in capital assets portion of the net assets of the joint venture with The Humber College Institute of Technology and Advanced Learning.

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 2012	Total 2011
Investment income on endowments	1,809	117	1,926	22,287
Less: available for expenditure	(3,057)	(632)	(3,689)	(2,959)
Increase (decrease) in accumulated endowed investment income	(1,248)	(515)	(1,763)	19,328
Contributions received during year	5,480	268	5,748	5,596
Endowment investment income (loss) net of contributions	4,232	(247)	3,985	24,924
Transfers in	4,192	-	4,192	4,660
Net increase (decrease) in net assets	8,424	(247)	8,177	29,584
Net assets, beginning of year	190,242	20,133	210,375	180,791
Net assets, end of year	198,666	19,886	218,552	210,375

(in thousands of dollars)

16. DONATIONS

	2012	2011
Donations received during the year	15,634	13,598
Donations recorded as a direct addition to endowments	(4,250)	(3,891)
Donations decrease in deferred contributions	4,079	60
Donations recorded as deferred capital contributions	(4,790)	(918)
Donations recognized as revenue	10,673	8,849

17. INVESTMENT INCOME

Investment income is earned from operations and endowments, where the term “operations” represents all investment activities other than endowments including those that are for both unrestricted and internally restricted purposes. The investment income from endowments is recorded in operations as the income becomes available for expenditure.

	Operations	Endowment	Total 2012	Total 2011
Net realized investment income	6,218	6,621	12,839	10,963
Increase (decrease) in unrealized investment income	(3,150)	(4,695)	(7,845)	15,084
Total investment income	3,068	1,926	4,994	26,047
(Increase) decrease in accumulated endowed investment income	-	1,763	1,763	(19,328)
Investment income available for expenditure	3,689	(3,689)	-	-
Net (increase) decrease in deferred contributions	(936)	-	(936)	(396)
Total	5,821	-	5,821	6,323

(in thousands of dollars)

18. 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, 2012, there is a net advance of $3,583 (2011 $3,910) 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, 2012). The total net return for the University is $9,287 (2010 $9,595).

A financial summary of the joint venture for the fiscal years ended March 31, 2012 and 2011 is as follows:

	2012	2011
Financial Position:		
Total Assets	24,634	25,135
Total Liabilities	6,059	5,946
Total Net Assets	18,575	19,189
Results of Operations:		
Total Revenue	46,613	42,985
Total Expenses	30,231	26,189
Excess of Revenue over Expenses	16,382	16,796
Net Assets:		
Unrestricted	16,364	16,996
Internally Restricted	500	500
Invested in capital Assets	1,711	1,693
	18,575	19,189
University Share (50%)	9,287	9,595

19. 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, 2011 is $3,110 (2010 $2,770).

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 operations 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.

20. COMMITMENTS

Costs to complete major capital projects in progress as at April 30, 2012 are estimated to be $29,990 (2011 $29,482) and will be funded by government grants, gifts and University resources.

21. 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, 2012 the Guelph Cutten Club borrowed $1,417 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.

22. 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 (UNAUDITED)
FOR THE YEAR ENDED APRIL 30, 2012
(in thousands of dollars)

	OPERATING FUND	CAPITAL FUND	ANCILLARY ENTERPRISES (Schedule 2)	RESEARCH & TRUST FUND	ENDOWMENT FUND	TOTAL 2012	TOTAL 2011
REVENUE							
Ministry of Training, Colleges and Universities	180,942	739	72			181,753	176,936
Ministry of Agriculture, Food and Rural Affairs Agreement	62,888					62,888	62,293
Tuition (Credit and Non-credit)	150,754					150,754	137,102
Donations	54			10,619		10,673	8,849
Sales of Goods and Services	44,071		78,026			122,097	121,901
Investment Income	1,518	523	15	3,765		5,821	6,323
Other Grants and Contracts	17,951			89,673		107,624	111,539
Amortization of Deferred Capital Contributions		23,265	50			23,315	22,442
Other	33,071	200	569			33,840	31,019
	491,249	24,727	78,732	104,057		698,765	678,404
EXPENSES							
Salaries	260,527		16,499	45,259		322,285	314,203
Benefits	86,959		3,465	5,397		95,821	93,124
Travel	8,284		179	6,466		14,929	15,196
Operating	93,270	13	25,203	29,898		148,384	145,264
Minor Renovations and Repairs		3,505	1,105			4,610	4,752
Interest		7,783	3,644			11,427	11,836
Scholarships and Bursaries	19,125			12,136		31,261	28,921
Institutional (Recovery) Charges	(10,220)		10,220				
Capital Asset Amortization		35,911	4,599			40,510	39,257
	457,945	47,212	64,914	99,156		669,227	652,553
Unrealized Gain (Loss) on Interest Rate Swaps		(1,362)	(2,161)			(3,523)	(1,126)
Revenue Less Expenses	33,304	(23,847)	11,657	4,901		26,015	24,725
Endowment Investment Income (Loss) Net of Contributions				3,985	3,985		24,924
Interfund Transactions	(28,896)	30,886	(6,152)	(30)	4,192		
Net Increase (Decrease) in Net Assets	4,408	7,039	5,505	4,871	8,177	30,000	49,649
Composed Of:							
Net Increase (Decrease) in Invested in Capital Assets		(7,657)	19,333			11,676	19,100
Net Increase (Decrease) in Endowments					8,177	8,177	29,584
Net Increase (Decrease) in Internally Restricted	6,443	16,058	(10,882)	4,871		16,490	43,222
Net Increase (Decrease) in Unrestricted	(2,035)	(1,362)	(2,946)			(6,343)	(42,257)
Net Increase (Decrease) in Net Assets	4,408	7,039	5,505	4,871	8,177	30,000	49,649

Schedule 1

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (UNAUDITED)
FOR THE YEAR ENDED APRIL 30, 2012
(in thousands of dollars)

	OPERATING FUND	CAPITAL FUND	ANCILLARY ENTERPRISES (Schedule 2)	RESEARCH & TRUST FUND	ENDOWMENT FUND	TOTAL 2012	TOTAL 2011
Net Assets, Beginning of Year	(103,472)	84,283	38,092	46,294	210,375	275,572	225,923
Net Increase (Decrease) in Net Assets	4,408	7,039	5,505	4,871	8,177	30,000	49,649
Net Assets, End of Year	(99,064)	91,322	43,597	51,165	218,552	305,572	275,572
Net Assets Components:							
Invested in Capital Assets		118,374	56,279			174,653	162,977
Endowed					218,552	218,552	210,375
Internally Restricted	158,105	(25,415)	(12,072)	51,165		171,783	155,293
Unrestricted Surplus (Deficit)	(257,169)	(1,637)	(610)			(259,416)	(253,073)
Net Assets, End of Year, Surplus (Deficit)	(99,064)	91,322	43,597	51,165	218,552	305,572	275,572

(See accompanying notes)

Schedule 2

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR ANCILLARY ENTERPRISES (UNAUDITED)
FOR THE YEAR ENDED APRIL 30, 2012

(in thousands of dollars)

	HOSPITALITY SERVICES	REAL ESTATE	STUDENT HOUSING SERVICES	PARKING	UNIVERSITY CENTRE	TOTAL 2012	TOTAL 2011
REVENUE	34,883	5,313	32,623	3,429	2,484	78,732	76,323
EXPENSES							
Cost of Materials	13,648				504	14,152	14,056
Salaries	10,763	212	4,220	327	977	16,499	15,918
Benefits	2,257	59	861	98	190	3,465	3,345
Institutional Charges	2,000		7,477	234	509	10,220	10,020
Operating	4,478	811	5,044	322	396	11,051	9,712
Travel	49	7	109	11	3	179	186
Minor Renovations and Repairs	34		855	190	26	1,105	982
Interest		90	3,554			3,644	4,771
Capital Asset Amortization	604	524	3,195	241	35	4,599	4,611
Total Operating Expenses	33,833	1,703	25,315	1,423	2,640	64,914	63,601
Unrealized Gain (Loss) on Interest Rate Swaps		38	(2,199)			(2,161)	(675)
Revenue Less Expenses	1,050	3,648	5,109	2,006	(156)	11,657	12,047
Interfund Transactions	(365)	(4,033)	(986)	(1,022)	254	(6,152)	(5,989)
Net Increase (Decrease) in Net Assets	685	(385)	4,123	984	98	5,505	6,058
Composed Of:							
Net Increase (Decrease) in Invested in Capital Assets	1,293	(15)	17,828	189	38	19,333	5,091
Net Increase (Decrease) in Internally Restricted	(627)	-	(10,861)	592	14	(10,882)	1,856
Net Increase (Decease) in Unrestricted	19	(370)	(2,844)	203	46	(2,946)	(889)
Net Increase (Decrease) in Net Assets	685	(385)	4,123	984	98	5,505	6,058

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR ANCILLARY ENTERPRISES (UNAUDITED)
FOR THE YEAR ENDED APRIL 30, 2012

(in thousands of dollars)

	HOSPITALITY SERVICES	REAL ESTATE	STUDENT HOUSING SERVICES	PARKING	UNIVERSITY CENTRE	TOTAL 2012	TOTAL 2011
Net Assets, Beginning of Year	6,931	13,772	10,840	5,624	925	38,092	32,034
Net Increase (Decrease) in Net Assets	685	(385)	4,123	984	98	5,505	6,058
Net Assets, End of Year	7,616	13,387	14,963	6,608	1,023	43,597	38,092
Net Assets Components:							
Invested in Capital Assets	11,657	9,670	28,229	6,286	437	56,279	36,946
Internally Restricted	(4,174)	-	(7,511)	(665)	278	(12,072)	(1,190)
Unrestricted Surplus (Deficit)	133	3,717	(5,755)	987	308	(610)	2,336
Net Assets, End of Year, Surplus (Deficit)	7,616	13,387	14,963	6,608	1,023	43,597	38,092

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