



IMPROVE LIFE.

ANNUAL FINANCIAL REPORT

Fiscal Year 2018

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Financial Summary

University financial results for the year show another overall positive year highlighted by increases in enrolment driven revenues, grants and contracts and sales of goods and services offset by a decrease in investment income from last year's very strong market returns, resulting in a 0.9% increase in total revenue.

When combined with an overall spending increase of 5.3%, the result was net income of \$62.1 million and a \$42.3 million increase in net assets. (Refer to the Table below).

Total University - Annual Results				
\$ millions	2018	2017	Change	
Total Revenue	825.4	818.3	7.1	0.9%
Total Expenses	769.9	731.4	38.5	5.3%
Decrease in Unrealized Loss on Interest Rate Swaps	6.6	2.9	3.7	
Revenue Less Expenses	62.1	89.8	(27.7)	
Direct Changes to Net Assets;				
Endowment Additions	4.7	25.9	(21.2)	
EFB¹ Re-measurements	(24.5)	33.9	(58.4)	
Total Direct Changes	(19.8)	59.8	(79.5)	
Total Change in Net Assets	42.3	149.6	(107.3)	

The largest contributor to the decreases in net income and direct changes to net assets compared to fiscal 2017, was much lower market returns on investments in both the University endowment fund and assets held for the pension plans; asset returns in these two major portfolios were 3.2% (15% in 2017) and 3.7% (14% in 2017) respectively.

Investment income recognized, mainly on internally restricted endowments, was \$16.7 million in fiscal 2018 which is \$19.4 million less than the \$33.4 million recognized in 2017. In addition, \$0.2 million was recorded as a

¹Employee Future Benefits (EFB) – include both pension and non-pension defined benefit programs.

decrease² in endowment net assets from investment returns on externally restricted endowments, which is \$22.7 million less than the \$22.5 million increase in 2017. Finally, EFB re-measurements resulted in a further reduction of \$24.5 million to net assets as the result of investment returns on pension plan assets lower than actuarial assumptions.

Revenue

Fiscal 2018 saw a slight increase of \$7 million (0.9%) in total revenue over last year. Grants and contracts including MAESD³ and OMAFRA contributed \$12.1 million in increased revenues. \$9.8 million in increased student tuition and fees was mainly due to rate increases. \$5.5 million in increased sales of goods and services was largely due to veterinarian hospital fees. These increases were offset by a \$19.4 million decrease in recognized investment income and a small decrease in other revenues.

Total University Revenue				
\$ millions	2018	2017	Change	
Prov. Grants MAESD	204.3	201.4	2.9	1.4%
Prov. Contract OMAFRA	74.2	71.1	3.1	4.4%
Student Tuition/Fees	289.7	279.9	9.8	3.5%
Other Grants & Contracts	97.4	91.3	6.1	6.7%
Sales of Goods & Services	98.5	93.0	5.5	5.9%
Investment Income	16.7	36.1	(19.4)	-53.7%
Other	44.6	45.5	(0.9)	-2.0%
Total Revenue	825.4	818.3	7.1	0.9%

² Under accounting policy, contributions to and investment results on externally restricted endowments are recorded as direct changes to Net Assets and do not impact revenue or expenses. Similarly, assumption changes and experience e.g., asset gains and losses, related to EFB plans are recorded as direct changes to net assets.

³ Ministry of Advanced Education and Skills Development; previously known as Ministry of Training, Colleges and Universities ("MTCU").

Expenses

Total expenses increased 5.3% primarily due to increases in salaries, benefits and student assistance in operating and research funds. Salaries and benefits costs increased overall by 5.8% and 8.1% respectively, student assistance increased by 10.0% and supplies and services increased by 7.1%.

Most compensation based increases were due to salary rate increases from new negotiated agreements and increases in numbers of faculty and staff. A 9% increase in employee future benefits occurred as the result of service costs calculated using a lower discount rate in 2018 than in 2017 in line with the most recent pension and other benefit plan valuations.

<i>University Expenses</i>				
\$ millions	2018	2017	Change	
Salaries	381.0	360.1	20.9	5.8%
Benefits	98.4	91.0	7.4	8.1%
Student Assistance	46.0	41.8	4.2	10.0%
Supplies and Services	72.0	67.2	4.8	7.1%
Utilities	18.8	23.4	(4.6)	-19.7%
Capital Amortization	45.8	43.5	2.3	5.3%
Interest	11.6	11.7	(0.1)	-0.9%
Other Expenses	96.3	92.7	3.6	3.9%
Total Expenses	769.9	731.4	38.5	5.3%

Other than compensation, the largest increases in expense were in “Supplies and Services” mostly due to increased spending in the research fund, and “Student Assistance” reflecting continued efforts to increase support for students overall and to attract high quality graduate students.

Utilities savings occurred largely from reduced electricity costs due partly to the Ontario government’s hydro rebate program as well as because of continuing investments in energy saving projects and practices.

Net Income by Major Fund

This section provides a further attribution analysis of net income across major funds that combined make up the University’s overall financial position.

Overall, the decline of \$27.7 million in net income was mainly due to increased salary and benefits coupled with a decrease in investment income.

<i>Revenue Less Expenses By Fund</i>			
\$ millions	2018	2017	Change
Operating	0.1	15.9	(15.8)
Capital	32.0	38.8	(6.8)
Ancillary Enterprises	15.3	12.1	3.2
Research	3.6	3.4	0.2
Trust	7.5	0.2	7.3
Endowments	3.6	19.4	(15.8)
Total	62.1	89.8	(27.7)

Operating fund results reflect increases in compensation and student assistance and an increase in transfers for capital projects. *(More details on page 8.)*

Capital fund net income remained significant reflecting the University’s continuing investments in both major building projects and renovations. The decrease from prior year was due in part to less investment income recognized for the sinking fund and decreased transfers for capital projects from the Trust fund. *(More details on page 5.)*

Endowments fund net income decreased due to lower investment income recognized on internally restricted endowments, which is primarily comprised of the Heritage Fund.

Trust fund net income increased due to the timing of distribution transfers out of the Heritage Fund for capital purposes, which were lower in 2018 than in 2017.

Net Assets by Category

University Net Assets are classified into four major groups in accordance with accounting policy. The following table shows 2018 Net Asset balances compared to the prior year.

Net Asset Balances			
\$ millions	2018	2017	Change
1. Capital Assets	587.9	516.6	71.3
2. Internally Restricted;			
Capital Projects ⁴	(38.1)	(4.3)	(33.8)
Operating Fund	226.5	237.3	(10.8)
Other Funds	100.3	87.8	12.5
Total Internally Restricted	288.7	320.8	(32.1)
3. Unrestricted (Deficit)	(311.2)	(305.9)	(5.3)
4. Endowment	360.8	352.4	8.4
Total University Net Assets	926.2	883.9	42.3

Capital Assets, typically the largest net asset category, shows the net undepreciated equity position the University holds in its land, buildings and equipment. In 2018 the University continued to invest its physical assets. Overall Capital Assets grew by a net \$71.3 million (\$2.1 million in 2017). (Refer to table below.)

Increases (Decreases) in Net Assets - Capital Assets			
\$ millions	2018	2017	Change
Capital asset acquisitions	135.2	80.9	54.3
Capital contributions recognized	20.8	21.1	(0.3)
External debt repayment	11.3	10.5	0.8
Capital asset amortization	(45.8)	(43.5)	(2.3)
Capital contributions deferred	(50.2)	(26.9)	(23.3)
New external debt	-	(40.0)	40.0
Total Change	71.3	2.1	69.2

Internally Restricted funds record the amount of accumulated net income designated by the Board for specific purposes including completing capital projects, division unspent funds and reserves. The largest change, accounting for most of the decrease in Internally Restricted fund occurred in the **Capital Projects** category by

⁴ Balances reflect the net financing position in the Capital fund; cash balances for projects in progress less internal financing used for capital projects.

advancing matching funds related to the Strategic Investment Fund government funding program to finance project costs (internal financing).

The decrease in **Operating Fund** includes an increase in division carry forwards (unspent budget allocations). These funds are designated mainly for future projects and programs including capital renovations, start-up funding for new faculty and temporary support staff. These were offset by a large decrease in employee benefit reserves reflecting pension special payment contributions required because of pension plan deficits.

The **Unrestricted (Deficit)** increased by \$5.3 million mainly due to the accounting recognition of employee future benefit re-measurements, resulting from experiencing an actual return of 3.7% on invested pension plan assets compared to the discount rate of 5.65% used to represent expected return in the current year.

Endowment net assets increased by \$8.4 million mainly as the result of the investment portfolio net return of 3.2%. Details of this increase are shown in the table below.

Increases (Decreases) in Net Assets - Endowments			
\$ millions	2018	2017	Change
Investment Income (Loss) not allocated for spending on:			
Externally restricted	(0.2)	22.5	(22.7)
Internally restricted	(1.3)	12.9	(14.2)
Total Investment Income (Loss)	(1.5)	35.4	(36.9)
Contributions to endowments			
From Donors	5.0	3.4	1.6
Internal transfers ⁵	4.9	6.5	(1.6)
Total Contributions	9.9	9.9	0.0
Total Change	8.4	45.3	(36.9)

⁵ Internal transfers to endowments primarily consists of Real Estate Division income designated for the Heritage Fund.

Major Capital Activity

The University continued to invest in its physical assets of buildings, facilities, and capital equipment with acquisitions totaling \$135.2 million (\$80.8 million in 2017). Referring to the table below, once again the major category of new investments occurred in buildings.

<i>Capital Expenditures</i>			
\$ millions	2018	2017	Change
Major Buildings	90.9	42.3	48.6
Equipment and Other	23.1	20.6	2.5
Main Campus Facilities Renewal	13.3	11.9	1.4
Student Housing Facilities Renewal	7.9	6.0	1.9
Total	135.2	80.8	54.4

Construction activity included the continuation of several major building projects as well as the start of new projects that will be completed over the next several years. Major projects include:

- The federally and provincially sponsored Strategic Investment Fund (SIF) program: total approved spending of \$66.6 million allocated over six approved projects, spending to date is \$53.4 million, of which \$47.7 million was spent in 2018;
- OVC Master Plan: total approved project costs decreased from \$35.2 million to \$34.2 million; spending to date is \$13.4 million, of which \$9.0 was spent in 2018;
- Turfgrass Institute Relocation: project cost of \$15.0 million; spending to date is \$3.3 million, of which \$1.4 million was spent in 2018;
- Powell Building Renovations: approved project cost of \$12.8 million; spending to date is \$7.9 million, of which \$7.3 million was spent in 2018;
- Football Pavilion: project cost increased from \$8.2 million to \$10.5 million; spending to date is \$10.2 million, of which \$4.0 million was spent in 2018;
- Library (Storage & Space), UC Washroom and Study Space Renovation, and Campus WIFI

projects: total approved project costs of \$11.8 million; spending to date is \$9.1 million, of which \$7.9 million was spent in 2018;

- Roads, Parking Lots and Sidewalks: spending of \$3.8 million on improvements in 2018.

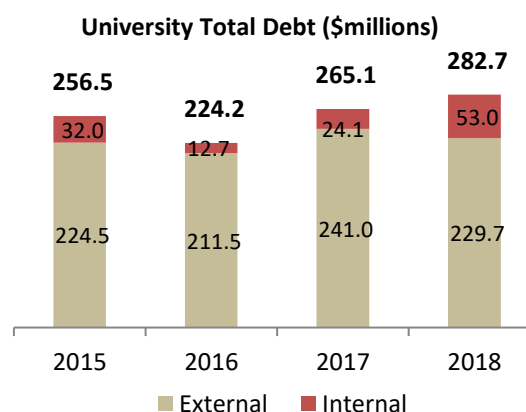
In addition, the University continued to invest in energy conservation. \$3.5 million was spent on the energy retrofit project in 2018 (approved project cost is \$26.2 million; total spending to date is \$26.0 million).

Major projects completed in Student Housing in 2018 included \$4.7 million spent on the South Residence Exterior Rehabilitation project. The continuing investments in student housing maintain infrastructure and improve the quality of the residence experience.

Debt

The University uses financing from both internal⁶ and external sources to fund high priority capital projects. Total capital financing increased by \$17.6 million consisting of;

- \$28.9 million in new internal financing mainly for the SIF program matching requirement;
- offset by \$11.3 million of principal repayments on external debt.

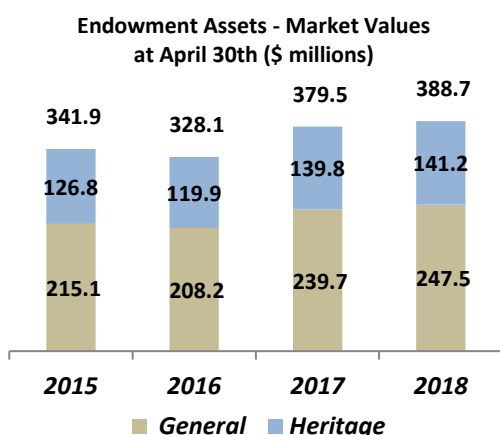


⁶ When there is sufficient operating cash liquidity, funds may be temporarily advanced to finance capital expenditures. As with external debt, internal financing must be repaid, usually over a period not exceeding 10 years.

The University is reviewed annually by two credit rating agencies, Standards and Poor’s and DBRS. In the credit rating process debt levels are considered in the context of overall fiscal health and peer institutions. For fiscal 2017, the University held ratings with these agencies at AA- and A (high), respectively. Debt levels are compliant with the Board-approved policy for capital debt management.

Endowments

University endowments (\$388.7 million) consist of two major components, the Heritage Fund and the General Endowment Fund. While both funds are invested as a single pool, each has its own payout formula and source of capital growth. In 2018, the endowment portfolio grew by \$9.2 million net of expenses and payouts.



In 2018 increases in global equity markets were partially offset by decreases in fixed income, contributing to a net return of 3.2%. (Refer to table below.)

Endowment Annual and Four-year Annualized Returns					
Returns ¹	2015	2016	2017	2018	Four Year
Gross	11.9%	-2.5%	16.5%	4.3%	7.3%
Net ²	10.8%	-3.6%	15.4%	3.2%	6.2%
Benchmark	12.7%	-1.7%	13.9%	5.4%	7.4%

Note 1: Currency hedging was phased out during 2018.
Note 2: Net return includes all investment management fees and internal University costs.

Four-year net returns averaged 6.2%. On a relative basis the portfolio underperformed its benchmark for this year, with a value-based bias, the portfolio’s investment managers underperformed their equity benchmarks in three of the last 4 years.

Additions to endowment capital totaled \$9.9 million in 2018 (\$9.9 million in 2017).

Total spending⁷ from endowments increased by \$3.2 million to \$14.3 million in 2018 as spending in the General Endowment Fund was similar to the prior year, but the Heritage Fund distribution was \$3.1 million higher due to favourable market conditions in 2017.

Annual Spending from Endowments				
\$millions	2015	2016	2017	2018
General	4.5	4.8	5.8	5.9
Heritage Fund	7.0	7.4	5.3	8.4
Total	11.5	12.2	11.1	14.3

The Heritage Fund disbursement formula tends to be more volatile as it is based on an average of recent total annual returns in equity markets whereas the General Endowment portion of the portfolio uses a fixed long-term disbursement rate (currently 3.5%).

Employee Future Benefits (EFB)

The University is responsible for the funding of post-employment defined benefit plans that provide both pension and non-pension benefits to retirees. These plans impact University financial results in four major categories; expenses; net assets; “obligations” or liabilities; and cash contributions. Calculations for each of these use methods as prescribed under accounting policy.

⁷ University policy limits spending from endowments each year to protect donated capital and real spending over the very long term.

EFB Expenses: Combined EFB expenses increased by 9.3% or \$4.2 million (to \$49.3 million) consisting of an increase in pension expenses of \$2.1 million and an increase in non-pension expenses of \$2.1 million. Both expense changes were the result of changes in financing costs on the net liabilities of each of the benefit programs at the end of the last fiscal period.

<i>EFB Expenses (in the Statement of Operations)</i>				
\$ millions	2018	2017	Change	
Expenses				
Pension Plans	25.8	23.7	2.1	8.9%
Non-Pension Plans	23.5	21.4	2.1	9.8%
Total Expenses	49.3	45.1	4.2	9.3%

Net Assets- Under accounting policy requirements, the financial impact of changes in actuarial assumptions and actual experience (gains or losses) on any defined benefit plan must be recorded directly to Net Assets (on the Statement of Financial Position) and not the Statement of Operations.

In 2018, the sum of these adjustments resulted in a \$24.5 million decrease in Net Assets. This consisted of a decrease of \$29.3 million due to the negative experience on pension assets (earning less than expected) offset by a \$4.8 million positive adjustment reflecting lower than expected benefit payments as actual claims trended less than expected.

The impact of these adjustments by program is presented in the table below. It demonstrates the volatility of these types of adjustments with the current swings in market values and changes to assumptions.

<i>EFB Direct Changes to Net Assets</i>			
\$ millions	2018	2017	Change
Re-measurements – (Gains) or Losses			
Pension Plans	26.6	(48.9)	75.5
Non-Pension	(2.1)	15.0	(17.1)
Total Re-measurements	24.5	(33.9)	58.4

The University's "Unrestricted Deficit" consists mainly of unfunded accounting charges⁸ for Employee Future Benefits. In 2018, this deficit increased by \$13.6 million mainly because of re-measurements noted above. The table below summarizes the changes to the University deficit as a result of EFB charges.

<i>Overall EFB Impact on the Unrestricted Deficit</i>			
\$ millions	2018	2017	Change
Opening Deficit	(308.0)	(345.3)	37.3
Re-measurements	(24.5)	33.9	(58.4)
Net Expenses	(5.7)	(3.7)	(2.0)
Transfer from Reserves	16.6	7.1	9.5
Closing Deficit	(321.6)	(308.0)	(13.6)

EFB Liabilities: The Assets and Liabilities portions of the Statement of Financial Position captures the net surplus or deficit positions of each of the pension plans and non-pension retirement benefits. In 2018 the total net liability for EFB is \$263.0 million, up from \$249.3 million in 2017. This increase of \$13.7 million, is mainly due to the increase in non-pension liabilities caused by unfunded financing costs.

<i>EFB Asset (Liability)</i>				
\$ millions	2018	2017	Change	
Pension Plans:				
Invested Assets	1,509.5	1,453.5	56.0	3.9%
Less: Obligations	1,486.2	1,433.0	53.2	3.7%
Pension Plans	23.3	20.5	2.8	
Non-Pension Plans	(286.3)	(269.8)	(16.5)	6.1%
EFB Net Obligations	(263.0)	(249.3)	(13.7)	5.5%

EFB Cash Contributions: University contributions to pension plans are based on actuarial valuations required by legislation. Non-pension contributions are based on actual costs of claims.

<i>EFB Contributions</i>				
\$ millions	2018	2017	Change	
Cash Contributions				
Pension Plans	55.3	43.6	11.7	26.8%
Non-Pension	4.9	4.9	0.0	0.0%
Total Contributions	60.2	48.5	11.7	24.1%

⁸ The University provides full funding for the cash requirements of its EFB plans.

In 2018, required pension special payment contributions increased from the prior year because of pension plan deficits, while the cost of non-pension benefits remained unchanged.

The Operating Fund

The Operating Fund, with 62% of total University revenue, is the main source of funding for all teaching programs and infrastructure support for all University research and services. The principle funding sources for this fund are provincial operating grants and student fees, both of which are based on student enrolments.

Operating Fund Revenues

Operating Fund revenue increased by 3.7% or \$18.1 million, \$12.8 million reflects the increases in provincial enrolment-based grants and income from student fees directly correlated to budget increases of approximately 3% in rates and approximately 1.0% in enrolment.

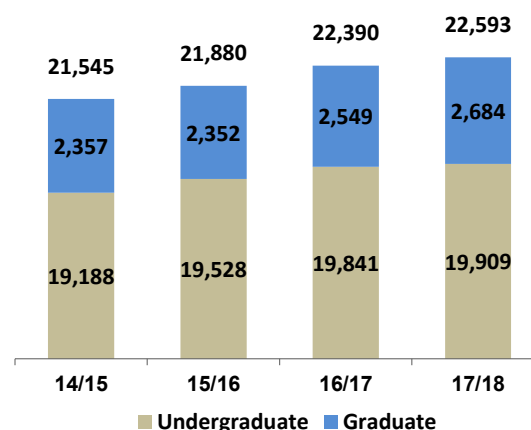
Operating Fund Revenue				
\$ millions	2018	2017	Change	
Provincial MAESD	203.8	200.9	2.9	1.4%
Provincial OMAFRA	5.5	5.5	0.0	0.0%
Student Tuition/Fees	241.5	231.6	9.9	4.3%
Sales & Other Contracts	47.4	44.4	3.0	6.8%
Other	14.5	12.2	2.3	18.0%
Total	512.7	494.6	18.1	3.7%

Enrolment increases were experienced mainly in international⁹ undergraduate and graduate programs. In 2018, university-degree enrolments increased over 2017 levels by 0.9% or 203 FTE's¹⁰.

⁹ International student enrolments are about 5% of total enrolments at the University.

¹⁰ FTE - Full-Time Equivalent, which converts part-time students into full-time equivalents. Actual head-counts would exceed FTE counts.

Student Enrolment in FTE's
(University Credit Programs excluding University of Guelph Humber)



Operating Fund Expenses

Operating Fund expenses increased 7.1% over 2017. The largest increases were experienced in salaries and benefits.

Operating Fund Expenses				
\$ millions	2018	2017	Change	
Salaries	280.2	266.1	14.1	5.3%
Benefits	80.6	73.9	6.7	9.1%
Supplies & Services	39.0	38.1	0.9	2.4%
Other Expenses	42.4	39.0	3.4	8.7%
Utilities	14.3	19.0	(4.7)	-24.7%
Student Assistance	32.6	28.4	4.2	14.8%
Interfund Transfers	23.5	14.1	9.4	66.7%
Total	512.6	478.6	34.0	7.1%

Salaries and benefits increased due to increases in both the number of full and part time staff as well as increases in the rate of compensation. Net Interfund Transfers¹¹ impacting the Operating Fund increased by \$9.4 million mainly due to transfers from the Operating Fund to the Capital Fund for approved capital projects.

¹¹ Interfund Transfers are funds allocated among the different funds within the University; at the total University level these transfers sum to zero.

Operating Fund Net Assets

Net Assets on the Statement of Financial Position accumulate annual net financial results each year. For the Operating Fund, results are classified into two components:

- **Internally Restricted** funds are created from accumulated annual net income which is subsequently allocated for specific future purposes;
- **Unrestricted** fund balance in the Operating Fund currently consists of unfunded accounting charges for post-employment benefits.

The 2018 Operating Fund annual net income of \$0.1 million, \$15.8 million lower than prior year was a result of increased costs mainly in salaries and benefits which increased \$14.1 million. A \$5.7 million increase in the accounting charge for post-employment¹² was more than offset by the transfer from reserves of \$16.6 million, reflecting funding to help cover 2018 pension cash contribution requirements.

The table below details the major changes to the University's Operating Fund balances year over year.

<i>Operating Fund - Net Assets</i>					
\$millions	Opening Balances	2018 Annual Results	Transfers (From)To Reserves	EFB Re-measure	Closing Balances
Internally Restricted					
Divisional Reserves	95.7	4.8			100.5
Central Reserves	75.1	1.0			76.1
Post-Employment Reserves	64.6		(16.6)		48.0
Self-insurance & GH	1.9				1.9
Total Internally Restricted	237.3	5.8	(16.6)		226.5
Unrestricted					
Post-Employment	(308.0)	(5.7)	16.6	(24.5)	(321.6)
Total Unrestricted	(308.0)	(5.7)	16.6	(24.5)	(321.6)
Total Operating Net Assets	(70.7)	0.1	-	(24.5)	(95.1)

This concludes the summary section of the annual report. Additional information including the University's major financial indicators is included in the next section. The final section is the actual audited financial statements, with notes, for the 12 month period ending April 30, 2018.

¹² The University does not fund the full accounting costs of non-pension post-employment benefits choosing to instead meet annual cash requirements of the plans. The Unrestricted Deficit effectively records the accumulated difference between accounting charges and cash contributions.

Supplementary Information

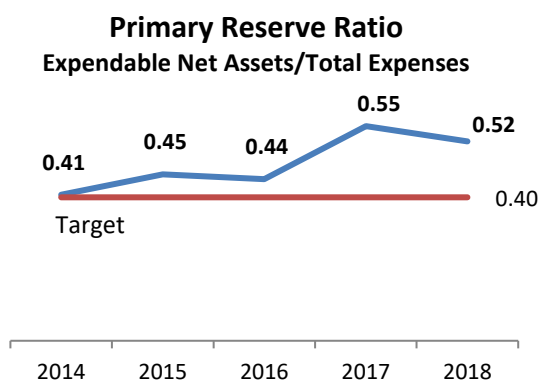
Financial Health Indicators

The following metrics use information from the audited statements¹³ to provide measures of both overall fiscal strength and more specific information related to University debt. Each metric has a “target” value intended to provide a long term benchmark around which actual values should be expected to range. Collectively they are intended to provide an overall indication of fiscal “health” using measures of:

- Flexibility
- Capacity
- Operating performance
- Debt management

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

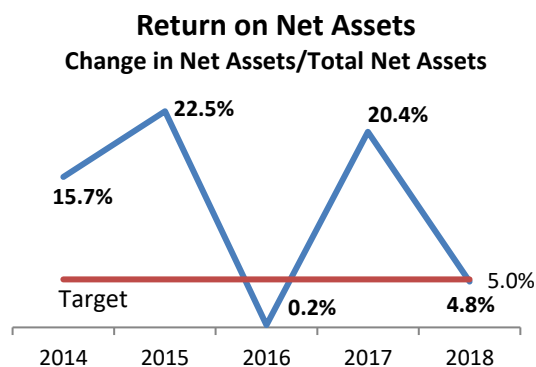
\$000's	2018	5 Year Change
Expendable Net Assets	397,841	126,288 47%
Total Expenses	769,861	99,980 15%



2. RETURN ON NET ASSETS: Measures whether the University is growing its total resources over time. It compares the change in net assets over opening net assets. On a combined basis, a growth rate of 5% is expected over time.

\$000's	2018	5 Year Change
Change in Net Assets	42,296	81,845* 13%*
Opening Net Assets	883,850	366,931 71%

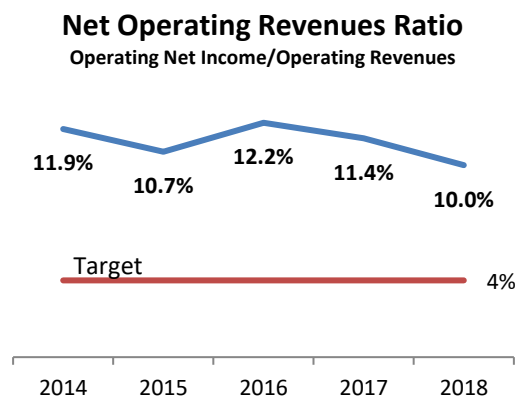
*Annual average



3. NET OPERATING REVENUES RATIO: Compares operating net income over operating revenues. Since it only looks at operations, it excludes most restricted funds that are for a specific purpose, e.g. research and endowment funding. Again, a long-term review of this ratio should be considered, as it can be volatile year over year. A 4% long term benchmark is the expected target.

\$000's	2018	5 Year Change
Operating Net Income	68,983	71,719* 11%*
Operating Revenues	689,413	101,649 17%

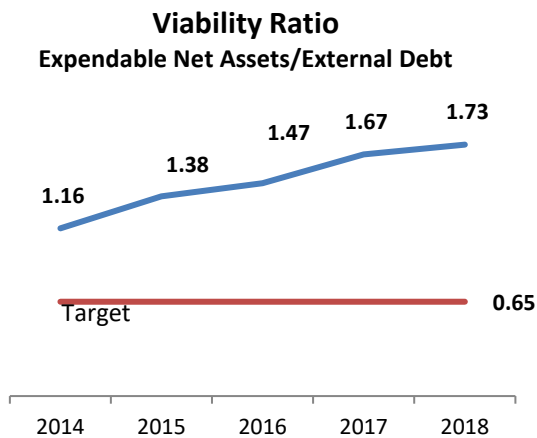
*Annual average



¹³ Includes UGH proportionately consolidated in 2016, 2017 and 2018 but not in previous years.

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

\$000's	2018	5 Year Change	
Expendable Net Assets	397,841	126,288	47%
External Debt	229,662	(5,338)	-2%



Debt Specific Metrics

The University has established a group of specific metrics in addition to the Viability Ratio to help manage debt. These are included in the [Capital Debt Policy](#). They include:

- Debt Service Burden – portion of funding used for covering debt payment
- Interest Burden – portion of funding used for interest payments on debt
- Debt Service Coverage – debt service costs as a portion of net income
- Debt to FTE – amount of debt per student

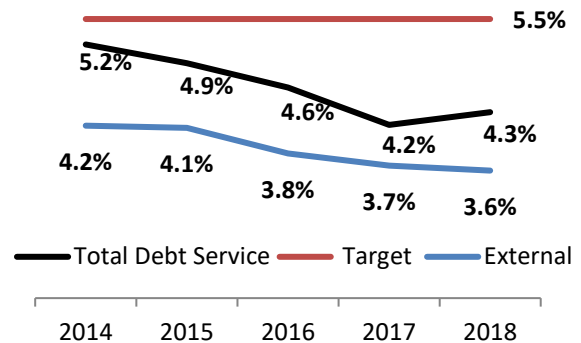
While many standard measures include only external debt e.g., borrowing from banks and financial markets, the University believes that the use of internal resources (liquidity) for capital is also a risk that needs to be tracked. This use of internal financing is therefore part of these metrics where applicable.

5.1 DEBT SERVICING BURDEN: This ratio measures the extent to which total debt servicing (incl. sinking fund payments) is a portion of total operating expenses excluding capital asset amortization. The objective is to stay below the Target.

\$000's	2018	5 Year Change	
Debt Servicing Costs	27,543	17	0%
Operating Expenses	635,794	104,524	20%

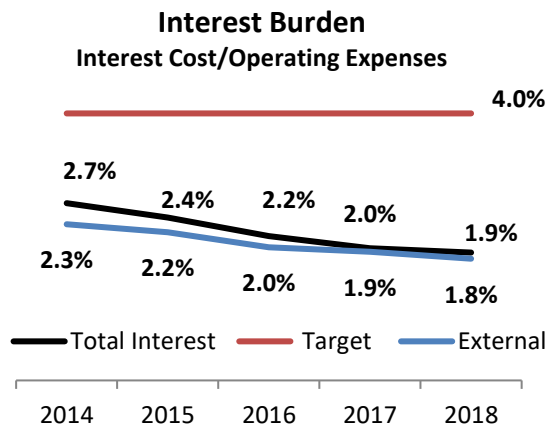
Debt Servicing Burden

Principal and Interest Cost/Operating Expenses



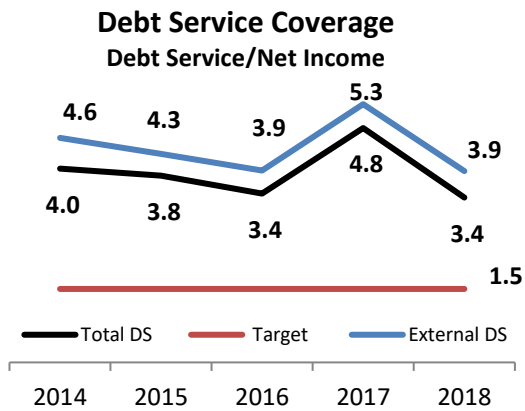
5.2 INTEREST BURDEN: Similar to Debt Servicing Burden but uses interest only portion of capital financing. The objective is to stay below the Target.

\$000's	2018	5 Year Change	
External Interest	11,595	(836)	-7%
Total Interest	12,179	(1,928)	-14%
Operating Expenses	635,794	104,524	20%



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

\$000's	2018	5 Year Change	
Adjusted Net Income	92,710	(16,249)	-15%
Debt Servicing Costs	27,543	17	0%
Adjusted Net Income External	92,126	(15,157)	-14%
External Debt Service	23,584	169	1%



5.4 DEBT PER STUDENT FTE: Compares the debt of the University to the size of the student body.

\$000's	2018	5 Year Change	
External Debt	229,662	(5,338)	-2%
Total Debt	282,614	15,236	6%
Total Student FTE's	22,593	1,045	5%

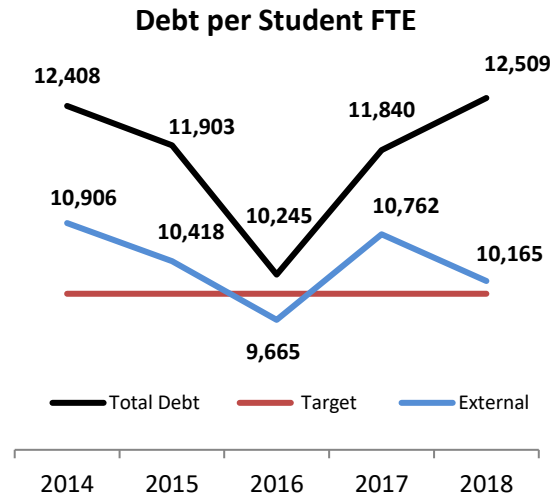
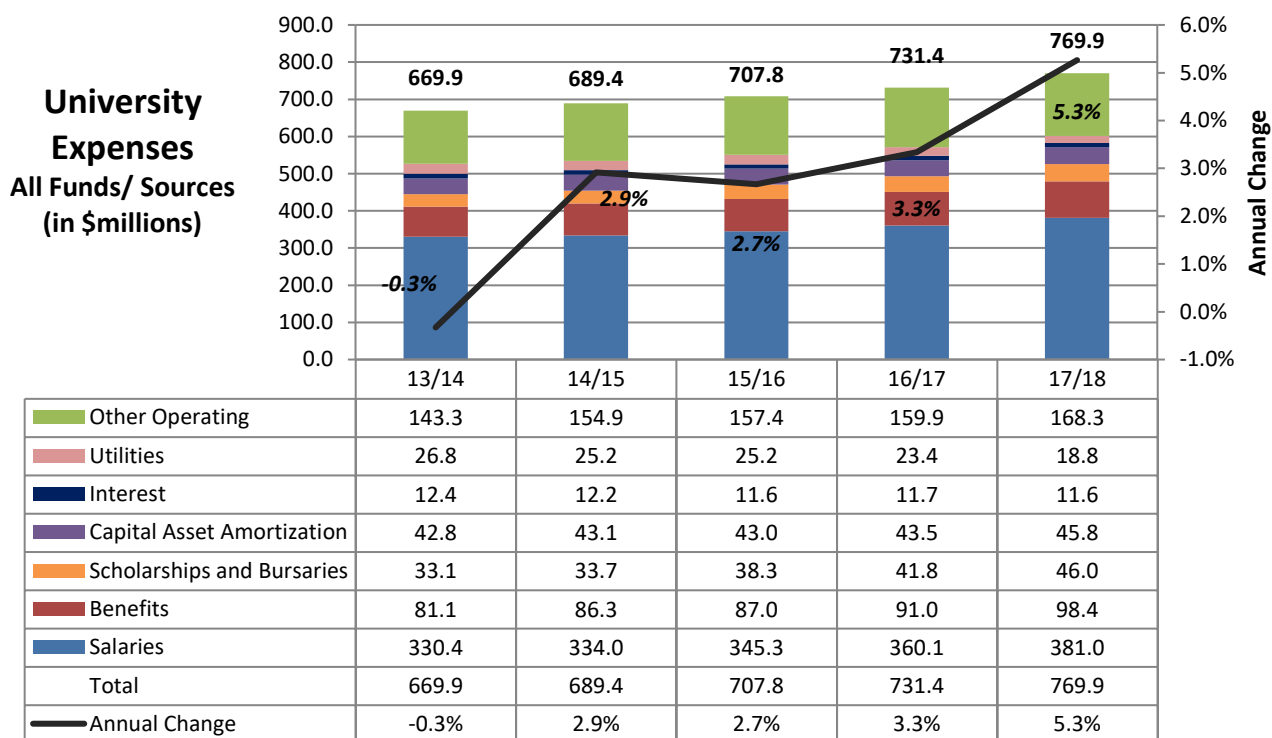
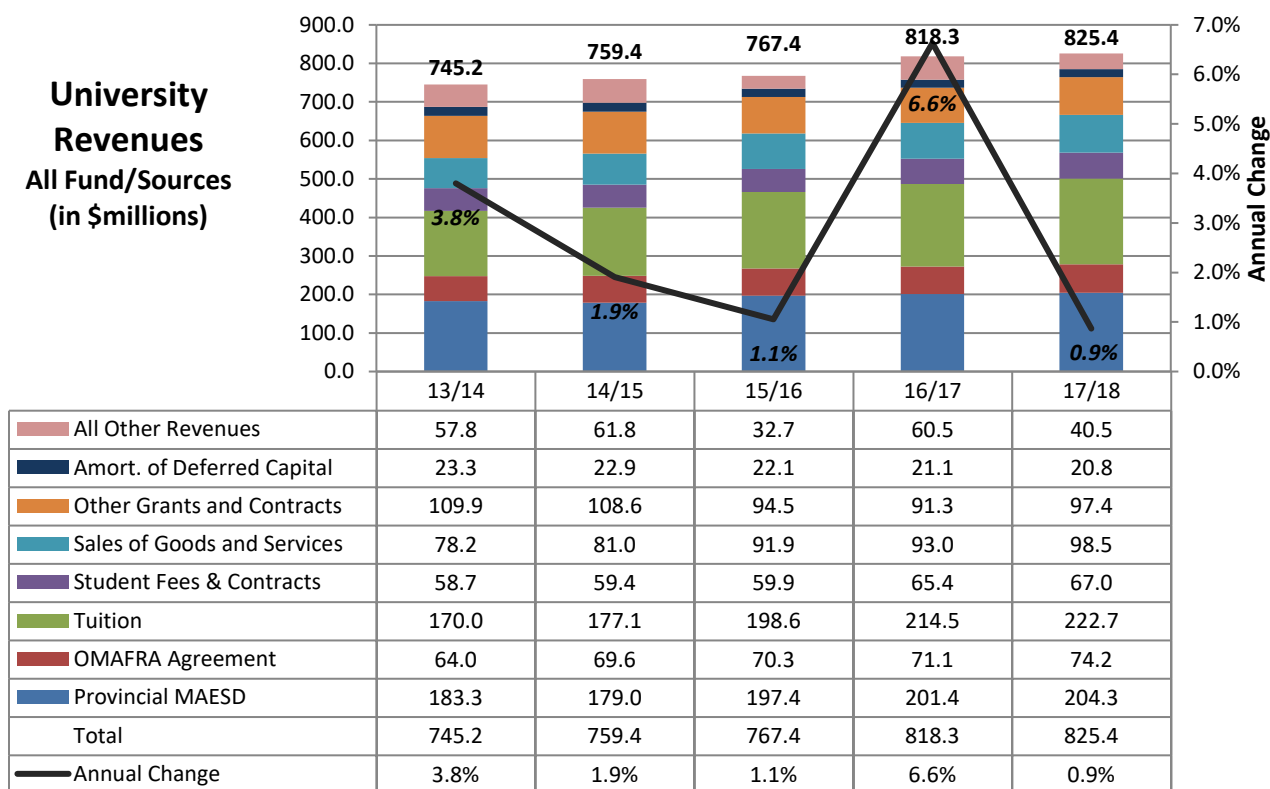


Table of Comparative Results¹⁴

	2014	2015	2016	2017	2018
Enrolment FTEs (excluding Guelph-Humber)	21,548	21,545	21,880	22,390	22,593
Faculty and Staff (Budgeted Positions)	2,965	2,933	2,885	2,928	3,032
Faculty (Budgeted Positions)	797	797	797	816	836
Revenues and Expenses					
Total Revenues (\$M)	\$745.2	\$759.4	\$767.4	\$818.3	\$825.4
Total Expenditures (\$M)	\$669.9	\$689.4	\$707.8	\$731.4	\$769.9
Unrealized Gain (Loss) on Interest Rate Swaps	\$4.6	\$(3.4)	\$0.6	\$2.9	\$6.6
Annual Surplus/(Deficit) (\$M)	\$79.9	\$66.6	\$60.2	\$89.8	\$62.1
Revenue year-over-year change	3%	2%	1%	7%	1%
MAESD Operating Grants per FTE (\$)	\$8,174	\$8,051	\$8,742	\$8,773	\$8,822
Revenue Mix (% of Total Revenues)					
Provincial Operating Grants - MAESD	25%	23%	26%	25%	25%
Tuition	23%	23%	25%	26%	27%
Endowment and Donations	3%	3%	3%	3%	3%
Expenditure year-over-year change	0.1%	2.9%	2.7%	3.3%	5.3%
Expense Mix (% of Total Expenses)					
Salaries	49%	48%	49%	49%	49%
Benefits (including EFB accounting policies)	12%	13%	12%	12%	13%
Components of Net Assets					
Invested in Capital Assets (\$M)	\$426.6	\$458.8	\$514.5	\$516.6	\$587.9
Endowed (\$M)	\$290.0	\$320.2	\$307.1	\$352.4	\$360.8
Internally Restricted (\$M)	\$262.3	\$260.1	\$261.6	\$320.8	\$288.6
Unrestricted (Deficit) (\$M)	\$(381.0)	\$(306.6)	\$(348.9)	\$(305.9)	\$(311.2)
Total Net Assets (\$M)	\$597.9	\$732.5	\$734.3	\$883.9	\$926.1
Capital and Capital Debt					
Total External Debt (\$M)	\$235.0	\$224.5	\$211.5	\$241.0	\$229.7
Total Debt per FTE (\$)	\$10,906	\$10,420	\$9,666	\$10,764	\$10,167
%Debt Service to Revenue	3.2%	3.2%	3.4%	2.8%	2.9%
%Debt to Revenue	31.9%	29.6%	27.6%	29.5%	27.8%
Capital Acquisitions (\$M)	\$49.4	\$58.7	\$75.9	\$80.6	\$135.2
Provincial Capital Grants (\$M)	\$2.7	\$1.0	\$1.6	\$0.5	\$0.4
Endowments					
Externally Restricted (\$M)	\$184.6	\$204.4	\$196.0	\$225.5	\$230.6
Internally Restricted (\$M)	\$124.3	\$137.5	\$132.1	\$154.0	\$158.1
Total Endowment Assets – Market Values (\$M)	\$308.9	\$341.9	\$328.1	\$379.5	\$388.7
Total Endowment per FTE (\$)	\$14,334	\$15,869	\$14,995	\$16,950	\$17,204
Employee Future Benefits (EFB)					
Pension Plans –Asset/(Obligation) (\$M)	\$(22.4)	\$49.1	\$(40.4)	\$26.4	\$26.9
Other Benefit Plans – (Obligation) (\$M)	\$(263.6)	\$(279.8)	\$(238.4)	\$(269.8)	\$(286.3)
Latest Valuation Date – Registered Plans	Aug-13	Aug-13	Aug-13	Aug-16	Aug-16
Latest Valuation Date – Other Plans	Aug-13	Aug-13	Jan-16	Jan-16	Jan-16

¹⁴ Excludes the University of Guelph Humber except for the 50% consolidation of revenue/expenses.

Total Revenues and Total Expenses - Five Year Trends¹⁵



¹⁵ Years 13/14 and 14/15 do not include 50% proportionate consolidation of the University of Guelph-Humber.

OMAFRA Contract

Fiscal 2018 was the fifth year of a five-year funding agreement with OMAFRA (April 1, 2013 – March 31, 2018) to provide major research and service programs focused in the sectors of agriculture, food, bio-products, and rural communities. OMAFRA Agreement revenues and expenses are recorded within the Research Fund, Trust Fund or Operating Fund depending on the purpose of the specific program.

All contract expenses are recorded in the University's financial statements as they are incurred, and provincial funding is recorded as to the extent it is required to support the expenses and balance the overall activities. This accounting treatment reflects the restricted nature of the funding which must be used for contract specific infrastructure and programs.

The OMAFRA contract is a major component of University research providing funding for almost 40% of total University research and supporting 648 University employees, both faculty and staff. In addition to direct provincial funding, the province designates provincially-owned facilities (research stations and laboratories) under the contract. The province provides funding to operate, maintain and from time to time construct new contract-related facilities. These facilities not only provide important research infrastructure for the University but generate revenues from the sale of goods (agricultural commodities), and services (laboratory testing).

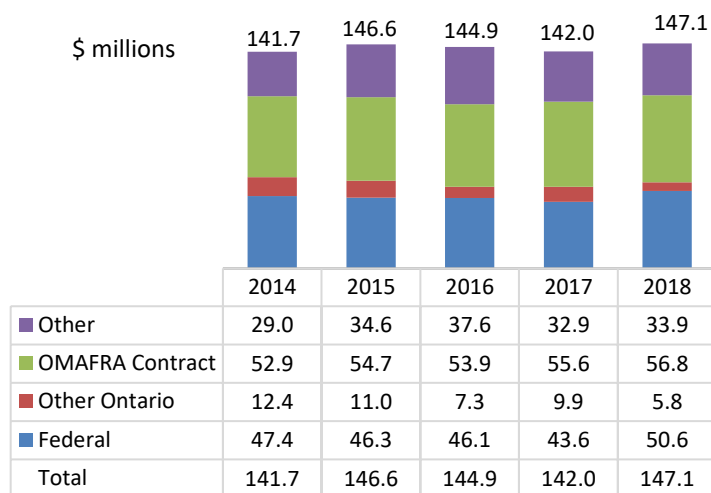
Research Funding

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

In 2018, \$147.1 million was received and allocated to departments (\$142.0 million in 2017). The increase is primarily a result of the Food for Thought Project funding under the federal Canada First Research Excellence Fund.

OMAFRA Agreement (\$Millions)	2018	2017	Change
REVENUE			
OMAFRA Agreement	74.4	71.1	4.6%
Sales of Goods & Services	19.8	18.0	10.0%
Investment Income	0.3	0.2	50.0%
Other Grants/ Contracts	0.0	0.8	-100.0%
Other Revenue	2.0	3.9	-48.7%
Total Revenue	96.5	94.0	2.7%
EXPENSES			
Salaries	33.9	32.7	3.7%
Benefits	8.5	8.2	3.7%
Operating	28.3	27.9	1.4%
Utilities	3.5	3.4	2.9%
Scholarships & Bursaries	0.5	0.5	0.0%
Cost Transfers	21.8	21.3	2.3%
Total Expenses	96.5	94.0	2.7%
REVENUE LESS EXPENSES	-	-	

Research Funding Allocated by Major Source



University of Guelph-Humber

The University 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 (“UGH”), an unincorporated joint venture.

The University reports its 50% interest in the operations of UGH using the proportionate consolidation method. The table shows the 50% of operations that are consolidated in the University’s financial statements.

2017 reflected results for the 13 months from April 1st, 2016 to April 30th, 2017, as a one-time adjustment to align the reporting periods for 2018 and future periods. This arose due to the University of Guelph changing its accounting policy to record UGH under the proportionate consolidation method. As such, small decreases in most revenue and expense items are expected when comparing 2018 to 2017.

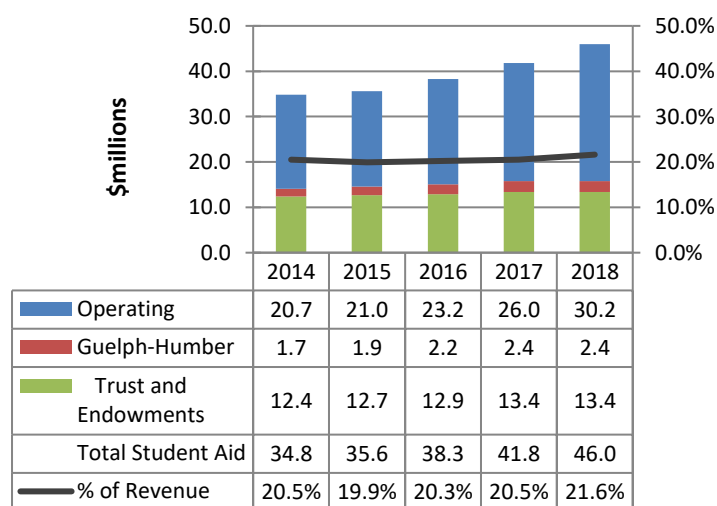
Guelph-Humber (\$millions)	2018	2017	Change \$ %	
REVENUE				
MAESD	17.4	17.9	(0.5)	-2.8%
Tuition	17.0	18.8	(1.8)	-9.6%
Student Fees	0.2	0.5	(0.3)	-60.0%
Total Revenue	34.6	37.2	(2.6)	-7.0%
EXPENSES				
Salaries	4.1	4.1	0.0	0.0%
Benefits	1.1	1.0	0.1	10.0%
Amortization	0.2	0.1	0.1	100%
Scholarships & Bursaries	2.4	2.5	(0.1)	-4.0%
Supplies	0.2	0.4	(0.2)	-50.0%
Professional Services	9.8	10.3	(0.5)	-4.9%
Equip., Repairs & Maint.	1.1	1.5	(0.4)	-26.7%
Travel	0.6	0.7	(0.1)	-14.3%
Other Operating	3.0	3.1	(0.1)	-3.2%
Total Expenses	22.5	23.7	(1.2)	-5.1%
REVENUE LESS EXPENSES	12.1	13.5	(1.4)	-10.4%
Guelph-Humber Undergraduate Enrolment (FTE's)	4,664	4,714	(50)	-1.1%

Student Aid

The University of Guelph, including 50% of the University of Guelph-Humber, spent \$46.0 million on Scholarships and Bursaries in fiscal 2018 reflecting an increase of 9.9% from the prior year. The main sources of funding for student assistance include the Operating Fund and University of Guelph-Humber operations as well as external funds which consist of a wide variety of restricted funds, e.g., grants, donations and endowments.

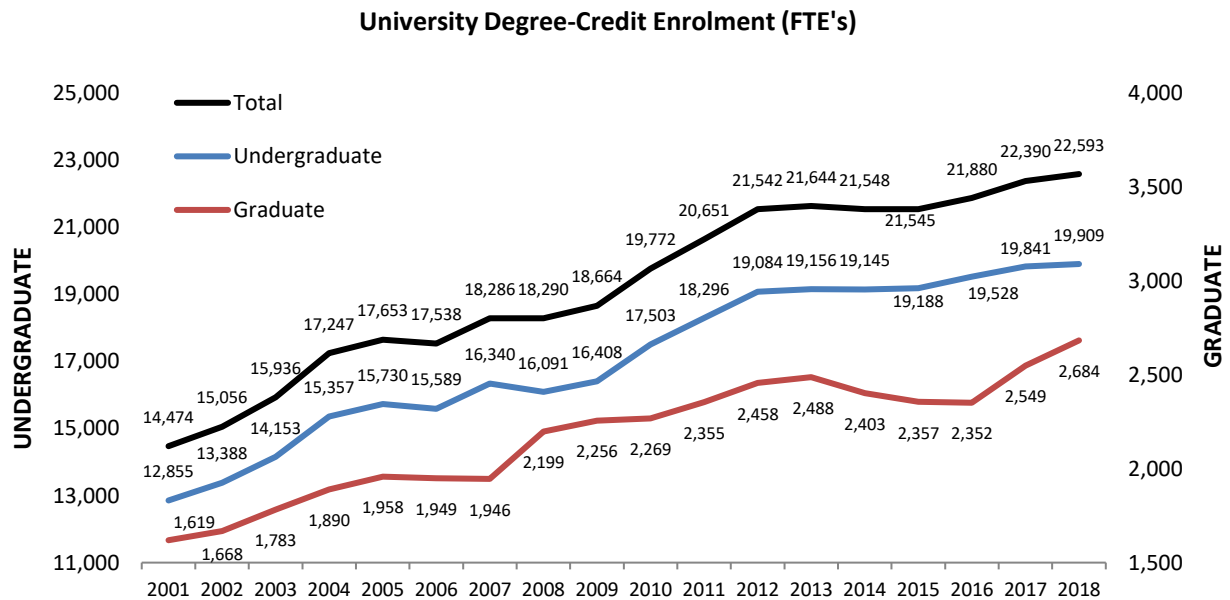
Student aid funding is now approximately 21.6% (20.5% in 2017) of total credit tuition revenues. Of the \$46.0 million, 66% was funded from the Operating Fund, 5% was for Guelph-Humber, and 31% was funded from trust funds including endowments.

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



Enrolment (excluding University of Guelph-Humber)

In 2018 University enrolment as measured in full-time equivalents (“FTE’s”) increased slightly compared to 2017. Small increases were seen in both undergraduate and in graduate enrolment numbers. Graduate enrolment increased by 135 FTE’s, which was just over 5% from 2017. Undergraduate enrolment was flat, increasing by 68 FTE’s or 0.3%, with the slight amount of growth coming from international students. The chart below shows almost 20 years of enrolment figures, reflecting relatively flat enrolment in recent years compared to major growth seen in the previous decade.



Statement of Operations – By Fund for Fiscal 2018 (May 1, 2017 to April 30, 2018)

(in thousands of dollars)	Operating Fund	Capital Fund	Ancillary Enterprises	Research Fund	Trust Fund	Endowment Fund	Total 2018	Total 2017
REVENUE								
Provincial Grants – MAESD	203,809	442	-	-	-	-	204,251	201,420
Provincial Contract – OMAFRA Agreement	5,489	-	-	49,643	19,050	-	74,182	71,104
Other Grants and Contracts	6,014	-	-	84,669	6,485	210	97,378	91,298
Tuition (Credit and Non-credit)	222,658	-	-	-	-	-	222,658	214,523
Student Fees and Contracts	18,788	-	47,229	-	1,013	-	67,030	65,383
Sales of Goods and Services	41,417	-	37,318	4,710	15,098	-	98,543	92,993
Investment Income	3,370	656	-	328	13,709	(1,323)	16,740	36,069
Amortization of Deferred Capital Contributions	-	20,766	33	-	-	-	20,799	21,144
Donations	47	-	-	3,116	7,227	34	10,424	10,653
Other	11,139	184	-	2,020	5	-	13,348	13,727
	512,731	22,048	84,580	144,486	62,587	(1,079)	825,353	818,314
EXPENSES								
Salaries	280,242	-	19,458	64,859	16,459	-	381,018	360,127
Employee Future Benefits (EFB)	49,292	-	-	-	-	-	49,292	45,095
Other Employee Benefits	31,264	-	3,901	9,416	4,538	-	49,119	45,915
Capital Asset Amortization	-	39,223	6,615	-	-	-	45,838	43,467
Scholarships and Bursaries	32,586	-	-	4,458	8,938	-	45,982	41,829
Supplies	14,878	-	2,425	12,531	5,756	-	35,590	33,833
Professional and Externally Contracted Services	24,116	8	1,580	8,857	1,840	-	36,401	33,344
Utilities	14,278	-	998	3,566	2	-	18,844	23,449
Equipment, Repairs and Maintenance	11,295	4,102	2,429	4,487	3,787	-	26,100	24,617
Travel	8,691	-	130	5,524	230	-	14,575	14,039
Interest	-	9,062	2,533	-	-	-	11,595	11,707
Other Operating	22,505	-	17,939	13,997	1,066	-	55,507	54,002
Decrease in Unrealized Loss on Interest Rate Swaps	-	(3,173)	(3,384)	-	-	-	(6,557)	(2,892)
Interfund Transactions	23,507	(59,176)	14,624	13,232	12,498	(4,685)	-	-
	512,654	(9,954)	69,248	140,927	55,114	(4,685)	763,304	728,532
Excess of Revenues over Expenses	77	32,002	15,332	3,559	7,473	3,606	62,049	89,782
Endowment Income & Contributions	-	-	-	-	-	4,784	4,784	25,847
EFB Remeasurements and Other Items	(24,537)	-	-	-	-	-	(24,537)	33,925
Transfers (To) From Invested in Capital and Endowed Net	-	(60,719)	(10,607)	-	-	(8,390)	(79,716)	(47,427)
Transfers (To) From Internally Restricted Net Assets	10,791	31,890	523	(3,559)	(7,473)	-	32,172	(59,170)
Net Increase (Decrease) in Unrestricted Net Assets	(13,669)	3,173	5,248	-	-	-	(5,248)	42,957
Unrestricted Net Assets, Beginning of Year	(308,002)	(4,673)	6,740	-	-	-	(305,935)	(348,892)
Unrestricted Net Assets, End of Year	(321,671)	(1,500)	11,988	-	-	-	(311,183)	(305,935)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of the **University of Guelph**, which comprise the consolidated statement of financial position as at April 30, 2018 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the **University of Guelph** as at April 30, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Kitchener, Canada
October 16, 2018

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

UNIVERSITY OF GUELPH
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT APRIL 30

(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current		
Cash and Cash Equivalents (Note 3)	44,685	56,063
Short-term Investments (Note 4)	221,569	199,050
Accounts Receivable	43,355	41,350
Inventories and Prepaid Expenses	11,143	11,108
	<u>320,752</u>	<u>307,571</u>
Long-term Investments (Note 4)	552,709	559,258
Defined Benefit Asset (Note 10)	28,888	24,750
Capital Assets (Note 5)	1,212,862	1,123,477
	<u>2,115,211</u>	<u>2,015,056</u>
<u>LIABILITIES</u>		
Current		
Accounts Payable and Accrued Liabilities (Note 6)	62,593	52,212
Unrealized Loss on Interest Rate Swaps (Note 7)	5,852	12,409
Current Portion of Long-term Debt (Note 7)	12,398	11,391
Current Portion of Deferred Revenue	11,724	9,820
Deferred Contributions (Note 8)	182,545	166,030
	<u>275,112</u>	<u>251,862</u>
Long-term Debt (Note 7)	217,264	229,560
Deferred Revenue	9,564	9,815
Deferred Capital Contributions (Note 9)	395,255	365,907
Defined Benefit Liability (Note 10)	291,870	274,062
	<u>1,189,065</u>	<u>1,131,206</u>
<u>NET ASSETS</u>		
Invested in Capital Assets (Note 11)	587,945	516,619
Internally Restricted (Note 12)	288,620	320,792
Unrestricted Deficit	(311,183)	(305,935)
Endowed (Note 13)	360,764	352,374
	<u>926,146</u>	<u>883,850</u>
	<u>2,115,211</u>	<u>2,015,056</u>

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

(See accompanying notes)

On behalf of the Board of Governors:

Signed

Kevin Golding
Chair

Signed

Franco Vaccarino
President

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

(in thousands of dollars)

	2018	2017
REVENUE		
Ministry of Advanced Education and Skills Development	204,251	201,420
Ministry of Agriculture, Food and Rural Affairs Agreement	74,182	71,104
Other Grants and Contracts	97,378	91,298
Tuition	222,658	214,523
Student Fees and Contracts	67,030	65,383
Sales of Goods and Services	98,543	92,993
Investment Income (Note 4)	16,740	36,069
Amortization of Deferred Capital Contributions (Note 9)	20,799	21,144
Donations (Note 14)	10,424	10,653
Other	13,348	13,727
	<u>825,353</u>	<u>818,314</u>
EXPENSES		
Salaries	381,018	360,127
Employee Future Benefits (Note 10)	49,292	45,095
Other Employee Benefits	49,119	45,915
Capital Asset Amortization	45,838	43,467
Scholarships and Bursaries	45,982	41,829
Supplies	35,590	33,833
Professional and Externally Contracted Services	36,401	33,344
Utilities	18,844	23,449
Equipment, Repairs and Maintenance	26,100	24,617
Travel	14,575	14,039
Interest (Note 7)	11,595	11,707
Other Operating	55,507	54,002
	<u>769,861</u>	<u>731,424</u>
Decrease in Unrealized Loss on Interest Rate Swaps (Note 7)	<u>6,557</u>	<u>2,892</u>
Excess of Revenues over Expenses	<u>62,049</u>	<u>89,782</u>

(See accompanying notes)

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

(in thousands of dollars)

	Invested in Capital Assets	Internally Restricted	Unrestricted Surplus (Deficit)	Endowed	Total
2018					
Net Assets, Beginning of Year	516,619	320,792	(305,935)	352,374	883,850
Excess (Deficiency) of Revenues over Expenses	(25,039)	-	87,088	-	62,049
Net Change in Net Assets Invested in Capital Assets (Note 11)	96,365	-	(96,365)	-	-
Net Change in Internally Restricted Net Assets (Note 12)	-	(32,172)	32,172	-	-
Employee Future Benefits Remeasurements and Other Items (Note 10)	-	-	(24,537)	-	(24,537)
Endowment Contributions (Note 13)	-	-	-	4,946	4,946
Decrease in Accumulated Investment Income on Externally Restricted Endowments (Note 13)	-	-	-	(162)	(162)
Internally Restricted Endowments (Note 13)	-	-	1,323	(1,323)	-
Other Transfers to Endowments (Note 13)	-	-	(4,929)	4,929	-
Net Assets, End of Year	<u>587,945</u>	<u>288,620</u>	<u>(311,183)</u>	<u>360,764</u>	<u>926,146</u>
2017					
Net Assets, Beginning of Year	514,515	261,622	(348,892)	307,050	734,295
Excess (Deficiency) of Revenues over Expenses	(22,323)	-	112,105	-	89,782
Net Change in Net Assets Invested in Capital Assets (Note 11)	24,427	-	(24,427)	-	-
Net Change in Internally Restricted Net Assets	-	59,170	(59,170)	-	-
Employee Future Benefits Remeasurements and Other Items (Note 10)	-	-	33,925	-	33,925
Endowment Contributions (Note 13)	-	-	-	3,401	3,401
Increase in Accumulated Investment Income on Externally Restricted Endowments (Note 13)	-	-	-	22,447	22,447
Internally Restricted Endowments (Note 13)	-	-	(12,914)	12,914	-
Other Transfers to Endowments (Note 13)	-	-	(6,562)	6,562	-
Net Assets, End of Year	<u>516,619</u>	<u>320,792</u>	<u>(305,935)</u>	<u>352,374</u>	<u>883,850</u>

(See accompanying notes)

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

(in thousands of dollars)

	2018	2017
OPERATING ACTIVITIES		
Excess of Revenues over Expenses	62,049	89,782
Add (Deduct) Non-cash Items:		
Gain on Sale of Capital Assets	-	(1,566)
Capital Asset Amortization	45,838	43,467
Amortization of Deferred Capital Contributions	(20,799)	(21,144)
Decrease (Increase) in Unrealized Investment Income	5,924	(6,125)
Decrease in Unrealized Loss on Interest Rate Swaps	(6,557)	(2,892)
Employee Future Benefits Expense	49,292	45,095
Employee Future Benefits Contributions	(60,159)	(48,512)
Net Change in Other Non-cash Items (Note 16)	26,509	16,786
	<u>102,097</u>	<u>114,891</u>
FINANCING ACTIVITIES		
Repayment of Long-term Debt	(11,289)	(10,526)
Proceeds from Long-term Debt	-	40,000
Deferred Capital Contributions Received During the Year	50,134	26,720
Endowment Contributions	4,946	3,401
	<u>43,791</u>	<u>59,595</u>
INVESTING ACTIVITIES		
Net Purchase of Investments	(22,056)	(169,769)
Purchase of Capital Assets	(135,210)	(82,123)
Proceeds from Sale of Capital Assets	-	3,068
	<u>(157,266)</u>	<u>(248,824)</u>
Decrease in Cash and Cash Equivalents	(11,378)	(74,338)
Cash and Cash Equivalents, Beginning of Year	<u>56,063</u>	<u>130,401</u>
Cash and Cash Equivalents, End of Year	<u><u>44,685</u></u>	<u><u>56,063</u></u>

(See accompanying notes)

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

1. AUTHORITY AND PURPOSE

The University of Guelph (the "University") operates as a not-for-profit entity under the authority of the *University of Guelph Act* (1964). The University is a comprehensive, research intensive university offering a range of undergraduate and graduate programs. With the exception of academic governance, which is vested in the University's Senate, the University is governed by the Board of Governors. The University is a registered charity (#10816 1829 RR0001) and is therefore exempt from income taxes under section 149 of the *Income Tax Act*.

These consolidated financial statements include the assets, liabilities, revenues, expenses and other transactions of all the operations of the University, including its 50% share in the University of Guelph-Humber Joint Venture (Note 15).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of balances with banks and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. These investments are held for the purpose of meeting short-term cash commitments rather than for investing or other purposes, such as debt repayment. Cash and cash equivalents held for investing or other purposes are classified as investments on the Statement of Financial Position.

(b) Investments and Investment Income

All investments are recorded at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Short-term investments are readily convertible to cash and are recorded at cost plus accrued income, which approximates fair value. Publicly traded securities are valued on the latest quoted market prices and limited partnership units are valued based on reported unit values.

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

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

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

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

(c) Derivative Financial Instruments

The University uses currency forward contracts to manage the impacts of foreign currency changes for investments denominated in foreign currencies and interest rate swaps to mitigate the effect of changes in interest rates on variable-rate debt. The University does not enter into derivative financial instruments for trading or speculative purposes.

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

Prior to fiscal 2017 all interest rate swaps were recorded at fair value where bank valuations are used to determine the fair value of interest rate swaps. Changes in fair value of interest rate swaps during the year are recorded in the Statement of Operations.

Starting in fiscal 2017 the University follows hedge accounting for its new interest rate swaps to manage the cash flow risk associated with its long-term debt obligation. In order for a derivative to qualify for hedge accounting, the hedge relationship must be identified, designated and formally documented at its inception. Change in the cash flows on the interest rate swaps must be highly effective in offsetting changes in the amount of cash flows on the hedged long-term debt. Interest rate swaps in qualifying hedging relationships are not recognized until their maturity.

(d) Interest in Joint Venture

With the approval of the Ontario Ministry of Advanced Education and Skills Development, the University of Guelph and The Humber College Institute of Technology and Advanced Learning entered into a Memorandum of Understanding dated June 10, 1999, to develop and deliver joint programming as the University of Guelph-Humber (the "Joint Venture"). The University's 50% interest in the Joint Venture is accounted for using the proportionate consolidation method.

(e) Other Financial Instruments

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

(f) Inventory Valuation

Inventories are recorded at the lower of cost, determined using the weighted average method, and net realizable value.

(g) Capital Assets

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

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

(h) Recognition of Revenue

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

Externally restricted contributions received for:

- Purposes other than endowment or the acquisition of capital assets are initially recorded as deferred contributions and recognized as revenue in the year in which the related expenses are incurred.

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

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

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

Unrestricted contributions are recognized as revenue when received.

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

Tuition and other academic fees are recorded as revenue on the accrual basis of accounting. All fees that relate to an academic term occurring within the fiscal year are included as revenue. Fees collected that relate to academic terms commencing after the end of the fiscal year are included in Current Portion of Deferred Revenue.

(i) Employee Future Benefits

The University maintains defined benefit plans providing pension, other retirement and post-employment benefits for its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the defined benefit obligation net of the fair value of plan assets measured at the date of the statement of financial position in the Statement of Financial Position.

Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, net change in valuation allowance, past service costs, and curtailment and settlement gains and losses are recognized as a direct increase or decrease in net assets.

The liability for funded and unfunded defined benefit plans is determined using a roll-forward technique to estimate the defined benefit liability using funding assumptions from the most recent actuarial valuation report prepared at least every three years.

(j) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at year end. Revenues and expenses are translated at exchange rates in effect on the date of the transaction. Gains or losses arising from these translations are included in revenue except to the extent that they relate to investments, in which case they are recognized in the same manner as investment income.

(k) Use of Estimates

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

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

3. CASH AND CASH EQUIVALENTS

	2018	2017
Cash	44,655	30,965
Government of Canada Treasury Bills	30	-
Money Market Funds	-	25,098
	<u>44,685</u>	<u>56,063</u>

4. INVESTMENTS

(a) Details

	2018	2017
Short-term Investments		
Restricted Cash Equivalents	13,816	17,115
Canadian Bank Guaranteed Investment Certificates	101,677	127,948
Government Bonds	81,251	32,536
Canadian Fixed Income	24,825	25,050
Foreign Currency Forward Contracts	-	(3,599)
	<u>221,569</u>	<u>199,050</u>
Long-term Investments		
Canadian Bank Guaranteed Investment Certificates	44,255	20,182
Government Bonds	20,474	78,462
Canadian Fixed Income	184,557	158,015
Canadian Equities	77,565	76,912
U.S. Equities	79,576	87,364
Non-North American Equities	96,706	91,876
Emerging Markets Equities	23,969	21,438
Infrastructure Limited Partnership	25,607	25,009
	<u>552,709</u>	<u>559,258</u>
Total Investments	<u>774,278</u>	<u>758,308</u>

(b) Investment Income

	2018		
	<u>Operations</u>	<u>Endowment</u>	<u>Total</u>
Net Realized Investment Income	9,378	19,903	29,281
Net Increase (Decrease) in Unrealized Investment Income	(3,031)	(6,993)	(10,024)
	<u>6,347</u>	<u>12,910</u>	<u>19,257</u>
Decrease (Increase) in Accumulated Investment Income on Externally Restricted Endowments (Note 14)	-	162	162
Decrease (Increase) in Accumulated Investment Income on Internally Restricted Endowments (Note 14)	(1,323)	1,323	-
Investment Income Made Available for Spending (Note 14)	14,395	(14,395)	-
Net Investment Income Deferred	(2,679)	-	(2,679)
	<u>16,740</u>	<u>-</u>	<u>16,740</u>

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

	2017		
	Operations	Endowment	Total
Net Realized Investment Income	17,220	19,559	36,779
Net Increase (Decrease) in Unrealized Investment Income	(6,814)	31,377	24,563
	<u>10,406</u>	<u>50,936</u>	<u>61,342</u>
Decrease (Increase) in Accumulated Investment Income on Externally Restricted Endowments (Note 14)	-	(22,447)	(22,447)
Decrease (Increase) in Accumulated Investment Income on Internally Restricted Endowments (Note 14)	12,914	(12,914)	-
Investment Income Made Available for Spending (Note 14)	15,575	(15,575)	-
Net Investment Income Deferred	(2,826)	-	(2,826)
	<u><u>36,069</u></u>	<u><u>-</u></u>	<u><u>36,069</u></u>

(c) Derivative Investments

Foreign currency forward contracts used to minimize exchange rate fluctuations and the resulting volatility on future financial results are recorded at fair value as Short-Term Investments on the Statement of Financial Position. The notional and fair values of these contracts are as follows:

	2018		2017	
	Notional Value	Fair Value	Notional Value	Fair Value
United States Dollar	-	-	80,467	(1,770)
Euro	-	-	13,883	(776)
British Pound Sterling	-	-	7,209	(551)
Japanese Yen	-	-	5,537	(259)
Other	-	-	7,940	(243)
		<u><u>-</u></u>		<u><u>(3,599)</u></u>

(d) Uncalled Commitments

As at April 30, 2018, approximately 4.6% (2017 – 4.5%) of the University’s long-term investment portfolio is invested in Brookfield Infrastructure Fund. The legal terms and conditions of these investments require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2018, the University had uncalled commitments of \$2,517 (2017 - \$2,936).

5. CAPITAL ASSETS

	2018		
	Cost	Accumulated Amortization	Net Book Value
Land	256,559	-	256,559
Land Improvements	42,736	12,809	29,927
Buildings	1,092,232	308,814	783,418
Furniture and Equipment	228,990	153,084	75,906
Construction in Progress	59,105	-	59,105
Computer Equipment	14,036	9,964	4,072
Library Books	15,832	11,958	3,874
Art, Rare Books and Other Collections	1	-	1
	<u><u>1,709,491</u></u>	<u><u>496,629</u></u>	<u><u>1,212,862</u></u>

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

	2017		
	Cost	Accumulated Amortization	Net Book Value
Land	254,160	-	254,160
Land Improvements	39,061	12,593	26,468
Buildings	992,131	288,188	703,943
Furniture and Equipment	230,205	155,368	74,837
Construction in Progress	57,026	-	57,026
Computer Equipment	12,593	9,736	2,857
Library Books	15,876	11,691	4,185
Art, Rare Books and Other Collections	1	-	1
	<u>1,601,053</u>	<u>477,576</u>	<u>1,123,477</u>

6. GOVERNMENT REMITTANCES

Accounts Payables and Accrued Liabilities include \$671 (2017 - \$591) with respect to government remittances payable.

7. LONG-TERM DEBT

(a) Details	Interest Rate	Issue Date	Due Date	2018	2017
Series A Unsecured Debenture	6.24%	11-Oct-02	10-Oct-42	<u>100,000</u>	<u>100,000</u>
Banker's Acceptances					
Toronto Dominion Bank	4.91%	20-Dec-07	20-Sep-22	2,549	3,087
Toronto Dominion Bank	4.54%	10-Apr-08	10-Jan-23	998	1,199
Toronto Dominion Bank	3.47%	13-Mar-09	13-Dec-23	3,995	4,670
Royal Bank of Canada	4.85%	23-Mar-10	24-Mar-25	3,623	4,151
Royal Bank of Canada	5.02%	1-May-10	1-May-25	4,849	5,530
Bank of Montreal	7.52%	16-Oct-00	15-Jun-25	22,300	23,900
Royal Bank of Canada	3.84%	3-Oct-11	2-Oct-26	21,365	23,924
Royal Bank of Canada	2.96%	5-Sep-12	5-Sep-27	18,274	20,228
Canadian Imperial Bank of Commerce	3.73%	1-Oct-13	1-Oct-28	13,666	14,975
Royal Bank of Canada	2.19%	15-Sep-16	15-Sep-41	38,043	39,287
				<u>129,662</u>	<u>140,951</u>
				229,662	240,951
Current Portion				<u>(12,398)</u>	<u>(11,391)</u>
				<u>217,264</u>	<u>229,560</u>

The interest rates disclosed above are the effective rates as a result of entering into interest rate swaps as discussed in part (c) of this note. During the current fiscal year, the University made principal repayments in the amount of \$11,289 (2017 - \$10,526) and incurred \$11,595 (2017 - \$11,707) in interest expense from long-term debt.

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

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

2019	12,398
2020	12,225
2021	12,454
2022	12,684
2023	12,082
2024 and beyond	167,819
	<u>229,662</u>

(b) Series A Unsecured Debenture

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

(c) Interest Rate Swaps

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

The notional amounts and the net unrealized gain (loss) of the contracts entered into prior to fiscal 2017 and outstanding at April 30th are:

	Due Date	2018		2017	
		Notional Amount	Gain (Loss)	Notional Amount	Gain (Loss)
Toronto Dominion	20-Sep-22	2,547	(147)	3,079	(316)
Toronto Dominion	10-Jan-23	1,000	(49)	1,200	(113)
Toronto Dominion	13-Dec-23	4,000	(61)	4,667	(264)
Royal Bank of Canada	24-Mar-25	3,630	(177)	4,150	(412)
Royal Bank of Canada	1-May-25	4,823	(260)	5,491	(578)
Bank of Montreal	15-Jun-25	22,300	(3,720)	23,900	(5,924)
Royal Bank of Canada	2-Oct-26	21,420	(797)	23,940	(2,168)
Royal Bank of Canada	5-Sep-27	18,268	(145)	20,208	(1,214)
Canadian Imperial Bank of Commerce	1-Oct-28	13,650	(496)	14,950	(1,420)
			<u>(5,852)</u>		<u>(12,409)</u>

The net change in the unrealized loss of \$6,557 (2017 – \$2,892) is recorded in the Statement of Operations.

The University applied hedge accounting for the interest rate swap entered into with Royal Bank of Canada in fiscal 2017. The swap contract has the effect of converting the floating rate of interest to a fixed rate of 2.19% on the original \$40 million debt obligation. The swap matures on the maturity date of the debt and therefore the net change in the unrealized gain of \$4,104 (2017 – 1,713) is not recorded in the consolidated financial statements as at April 30th.

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

8. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent externally restricted grants, donations and investment income for research and other specific purposes. Changes in the deferred contributions are as follows:

	<u>2018</u>	<u>2017</u>
Balance, Beginning of Year	166,030	149,265
Contributions Received During the Year	246,586	206,915
Contributions Recognized to Revenue During the Year	<u>(230,071)</u>	<u>(190,150)</u>
Balance, End of Year	<u>182,545</u>	<u>166,030</u>

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations and grants received over a number of years restricted to the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the Statement of Operations. Changes in the deferred capital contributions are as follows:

	<u>2018</u>	<u>2017</u>
Balance, Beginning of Year	365,907	360,075
Contributions Received During the Year	50,147	26,976
Amortization of Deferred Capital Contributions	<u>(20,799)</u>	<u>(21,144)</u>
Balance, End of Year	<u>395,255</u>	<u>365,907</u>

10. EMPLOYEE FUTURE BENEFITS

(a) Description of Plans

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

During the pension's year, primary pension plan provision changes were increases to employee contribution rates in accordance with negotiated agreements between the University and employee groups to achieve 50/50 costing sharing of the normal actuarial cost of each plan. The most recent actuarial valuations were prepared as of August 1, 2016 for the University's registered pension plans and January 1, 2016 for other benefit plans. The next required funding valuation for the University's registered pension plans will be August 1, 2019. The University measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at April 30th of each year.

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

(b) Defined Benefit Obligations and Plan Assets

	Pension Plans		Other Benefit Plans		Total	
	2018	2017	2018	2017	2018	2017
Defined Benefit Obligation	1,482,670	1,427,027	286,314	269,806	1,768,984	1,696,833
Fair Value of Plan Assets	1,509,565	1,453,470	-	-	1,509,565	1,453,470
Funded Status -Surplus(Deficit)	26,895	26,443	(286,314)	(269,806)	(259,419)	(243,363)
Valuation Allowance ("VA")	(3,563)	(5,949)	-	-	(3,563)	(5,949)
Net Defined Benefit Asset (Liability)	23,332	20,494	(286,314)	(269,806)	(262,982)	(249,312)
Statement of Financial Position						
Defined Benefit Asset	28,888	24,750	-	-	28,888	24,750
Defined Benefit Liability	(5,556)	(4,256)	(286,314)	(269,806)	(291,870)	(274,062)
Net Defined Benefit Asset (Liability)	23,332	20,494	(286,314)	(269,806)	(262,982)	(249,312)

(c) Net Benefit Plan Costs

	Pension Plans		Other Benefit Plans		Total	
	2018	2017	2018	2017	2018	2017
Total Service Cost	49,534	41,774	8,241	6,852	57,775	48,626
Less: Employee Contributions	(21,839)	(20,348)	-	-	(21,839)	(20,348)
Current Service Cost	27,695	21,426	8,241	6,852	35,936	28,278
Finance Cost (Recovery)	(1,923)	2,292	15,279	14,525	13,356	16,817
Employee Future Benefits Expense	25,772	23,718	23,520	21,377	49,292	45,095
Return on Plan Assets Less (Greater) than Discount Rate	29,347	(101,850)	-	-	29,347	(101,850)
Actuarial (Gain) Loss	-	55,331	(2,088)	14,963	(2,088)	70,294
Current Decrease in VA	(2,386)	(1,898)	-	-	(2,386)	(1,898)
Effect of VA on Finance Cost	(336)	(471)	-	-	(336)	(471)
Remeasurements and Other Items	26,625	(48,888)	(2,088)	14,963	24,537	(33,925)
Net Benefit Cost (Recovery)	52,397	(25,170)	21,432	36,340	73,829	11,170

(d) Significant Assumptions

The discount rate used for determining defined benefit obligation at April 30th is 5.65% (2017 – 5.65%) and for determining benefit cost for the fiscal year is 5.65% (2017 – 5.65%). The rate of increase in future compensation used for determining defined benefit obligation at April 30th is 4% (2017 – 4.0%) and for determining benefit cost for the fiscal year is 4% (2017 – 4.0%). The assumed rate for dental inflation is 4.5% (2017 – 4.5%). The assumed health care cost trend rate is 5.5% (2017 – 6.0%) declining annually by 0.5% (2017 – 0.5%) until reaching the ultimate rate of 5% (2017 – 5.0%).

11. INVESTED IN CAPITAL ASSETS

	2018	2017
Capital Assets (Net Book Value) (Note 5)	1,212,862	1,123,477
Less: Long-term Debt (Note 7)	(229,662)	(240,951)
Deferred Capital Contributions (Note 9)	(395,255)	(365,907)
Invested in Capital Assets	587,945	516,619

UNIVERSITY OF GUELPH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018
(in thousands of dollars)

Changes in Invested in Capital Assets are as follows:

	<u>2018</u>	<u>2017</u>
Capital Asset Amortization	(45,838)	(43,467)
Amortization of Deferred Capital Contributions	20,799	21,144
	<u>(25,039)</u>	<u>(22,323)</u>
Acquisition of Capital Assets	135,223	80,877
Repayment of Long-term Debt	11,289	10,526
Increase in Long-term Debt	-	(40,000)
Cash Contributions Received During the Year	(50,134)	(26,720)
Contributions of Depreciable Assets Received During the Year	(13)	(256)
	<u>96,365</u>	<u>24,427</u>
	<u>71,326</u>	<u>2,104</u>

12. INTERNALLY RESTRICTED NET ASSETS

These are restrictions on net assets designated for future purchase 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 amounts deemed necessary by the Board.

	<u>Balance, April 30, 2017</u>	<u>Transfer to (from) in 2018</u>	<u>Balance, April 30, 2018</u>
Operating Fund Reserves			
Division Reserves	95,718	4,794	100,512
Central Operating Reserves	75,127	964	76,091
Guelph-Humber Internally Restricted	900	-	900
Self Insured Losses	1,000	-	1,000
Employee Benefit Reserves	64,560	(16,549)	48,011
	<u>237,305</u>	<u>(10,791)</u>	<u>226,514</u>
Capital Projects Reserves			
Capital Projects and Renovations	26,135	(5,473)	20,662
Internally Financed Projects	(30,418)	(28,304)	(58,722)
Funds Held for Debt Repayment	17,839	1,356	19,195
Trust	30,616	7,473	38,089
Research	38,502	3,559	42,061
Other	813	8	821
	<u>320,792</u>	<u>(32,172)</u>	<u>288,620</u>

13. CHANGES IN NET ASSETS – ENDOWED

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

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

Endowed net assets include externally restricted donations received by the University and donations designated by the Board to be endowed for specific purposes. The University endowment policy has the objective of protecting the real spending value of the endowed principal by limiting spending of investment income earned on endowments. Details of changes in endowed net assets are as follows:

	2018		
	Externally Restricted	Internally Restricted	Total
Investment Income on Endowments	7,238	5,672	12,910
Less: Available for Spending (Note 4(b))	(7,400)	(6,995)	(14,395)
Decrease in Accumulated Investment Income on Endowments (Note 4(b))	(162)	(1,323)	(1,485)
Endowment Contributions (Note 14)	4,946	-	4,946
	<u>4,784</u>	<u>(1,323)</u>	<u>3,461</u>
Transfers to (from) Endowments	(13)	4,942	4,929
Net Increase in Net Assets	4,771	3,619	8,390
Net Assets, Beginning of Year	209,249	143,125	352,374
Net Assets, End of Year	<u>214,020</u>	<u>146,744</u>	<u>360,764</u>
	2017		
	Externally Restricted	Internally Restricted	Total
Investment Income on Endowments	29,687	21,249	50,936
Less: Available for Spending	(7,240)	(8,335)	(15,575)
Increase in Accumulated Investment Income on Endowments (Note 4(b))	22,447	12,914	35,361
Endowment Contributions (Note 14)	3,401	-	3,401
	<u>25,848</u>	<u>12,914</u>	<u>38,762</u>
Transfers to Endowments	-	6,562	6,562
Net Increase in Net Assets	25,848	19,476	45,324
Net Assets, Beginning of Year	183,401	123,649	307,050
Net Assets, End of Year	<u>209,249</u>	<u>143,125</u>	<u>352,374</u>

14. DONATIONS

	2018	2017
Donations Received During the Year	27,174	28,683
Less: Donations Recorded as Endowment Contributions (Note 13)	(4,946)	(3,401)
Donations Recorded as Deferred Capital Contributions	(8,800)	(10,892)
Net Increase in Deferred Contributions from Donations	(3,004)	(3,737)
Donations Recognized as Revenue	<u>10,424</u>	<u>10,653</u>

15. JOINT VENTURE, UNIVERSITY OF GUELPH-HUMBER

As part of its participation in the Joint Venture, the University provides certain services including academic administration, student recruitment and admissions, curriculum development, course delivery, and IT services. The University advances funds equal to the cost of these services to the

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Joint Venture on an ongoing basis and is then reimbursed for these expenses periodically. All amounts are shared 50% by each venturer. The total amount advanced by the University for such services during the year was \$11,372 (2017 - \$11,406), which represents the exchange amount as agreed to by the parties.

A financial summary of the University's share of the Joint Venture consolidated at April 30 is as follows:

	<u>2018</u>	<u>2017</u>
Financial Position:		
Total Assets	18,422	17,948
Total Liabilities	3,397	2,935
Total Net Assets	<u>15,025</u>	<u>15,013</u>
Results of Operations:		
Total Revenue	34,568	37,229
Total Expenses	22,459	23,652
Excess of Revenue over Expenses	<u>12,109</u>	<u>13,577</u>

16. NET CHANGE IN OTHER NON-CASH ITEMS

	<u>2018</u>	<u>2017</u>
Accounts Receivable	(2,005)	(4,335)
Inventories and Prepaid Expenses	(35)	2,302
Accounts Payable and Accrued Liabilities	10,381	3,319
Deferred Revenue	1,653	(1,265)
Deferred Contributions	16,515	16,765
	<u>26,509</u>	<u>16,786</u>

17. COMMITMENTS

Costs to complete major capital projects in progress as at April 30, 2018 are estimated to be \$59,659 (2017 - \$62,344) and will be funded by government grants, gifts and University resources.

18. CONTINGENCIES

The nature of the University's activities is such that there are usually claims or potential claims in prospect at any one time. At April 30, 2018, the University believes it has valid defenses and appropriate insurance coverage in place on certain claims which are not expected to have material impact on the University's financial position. There also exist other claims or potential claims where the ultimate outcome cannot be determined at this time. Any additional losses related to claims would be recorded in the year during which the amount of the liability is able to be estimated or adjustments to the amount recorded are determined to be required.

The University is a member in a self-insurance co-operative in association with other Canadian universities to provide property and general liability insurance coverage. Under this arrangement referred to as the Canadian Universities Reciprocal Insurance Exchange ("CURIE"), a contractual agreement exists to share the property and liability insurance risks of member universities. The projected cost of claims is funded through members' premiums based on actuarial projections. As at December 31, 2017, CURIE had an accumulated surplus of \$81,232 (2016 - \$84,908) of which the University's pro rata share is \$2,678 (2016 - \$2,722).

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,

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

The University has a lease arrangement with the Guelph Cutten Fields, whereby the University leases the assets to the Guelph Cutten Fields, which is owned by the members. The University has guaranteed a loan of up to \$2,500 for the Guelph Cutten Fields. As at April 30, 2018 the Guelph Cutten Fields borrowed \$616 (2017 – \$750) under this guarantee.

The University has signed two letters of credit with the City of Guelph related to landscaping. The total amount of these at April 30, 2018 was \$161. Both letters of credit expire in the next fiscal year.

19. FINANCIAL INSTRUMENTS

The University is exposed to various financial risks through transactions in financial instruments.

(a) Currency Risk

The University is exposed to foreign currency risk with respect to its investments denominated in foreign currencies because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

(b) Credit Risk

The University is exposed to credit risk in connection with its short-term investments, accounts receivable and its derivative financial instruments. The University minimizes the credit risk of cash and cash equivalents and short-term investments by depositing with only reputable financial institutions, investing in securities that meet minimum credit ratings as stipulated by the University's investment policies, and limiting exposure to any one investment. The University minimizes the credit risk of its accounts receivable by performing credit reviews where necessary. The University is also exposed to counterparty credit risk inherent in its interest rate swap agreements and foreign currency derivatives. The counterparty is either a Canadian chartered bank or major foreign/multinational bank, and the University has assessed these risks as minimal.

(c) Interest Rate Risk

The University is exposed to interest rate risk on its variable rate debt. The University minimizes this risk by entering into interest rate exchange (swap) contracts with Canadian chartered banks in order to convert variable-rate borrowings to fixed rates, thereby reducing interest rate risk associated with its outstanding debt. The University is also exposed to interest rate risk with respect to its investments in fixed income securities because the fair value will fluctuate with changes in market interest rates.

(d) Liquidity Risk

The University is exposed to liquidity risk to the extent it will encounter difficulty in meeting obligations associated with financial liabilities. The University manages its liquidity risk by monitoring its operating and capital requirements. The University prepares capital and operating budgets to fulfill its obligations.

(e) Other Price Risk

The University is exposed to other price risk through changes in market prices (other than changes arising from interest rate or currency risks) in connection with its investments in equity securities and pooled funds.