

University of Guelph
SUMMARY OF FINANCIAL RESULTS
 For the fiscal year May 1, 1999 to April 30, 2000

The following report highlights University financial results for the year ended April 30, 2000 (referred to as fiscal 2000) as presented in the audited financial statements.

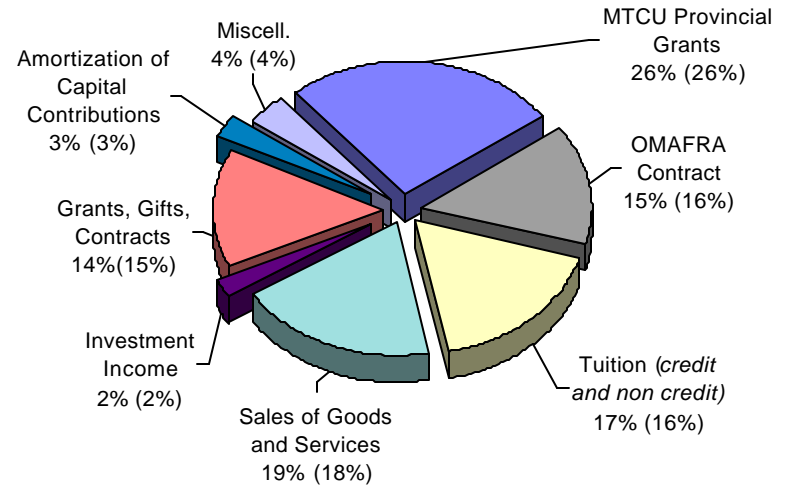
The University of Guelph receives funds from a variety of different sources (see Graph A.) Many of these funds are restricted by the donor, agency or organization as to use, and may not be used for general operating expenses. The University reports its financial activities on a fund accounting basis. This method of accounting segregates financial reporting according to major University activities, external restrictions on funding and the expendability of funds. (A fund is a self-balancing set of financial accounts including both balance sheet and income statement accounts.) The University currently reports on five different funds: Operating, Capital, Ancillary Enterprises, Research and Trust and Endowment. A description of each of these funds can be found on page 6 in the audited financial statements.

Summary of Significant Events Fiscal 2000 - All Funds

- **REVENUES:** from all sources, was \$349.5 million, an increase of 3.4% from fiscal 1999 (\$338 million).
- Provincial grants from the Ministry of Training Colleges and Universities (MTCU) (26% of total revenues) increased by \$2.9 million or 3.3% mainly due to funds received under three targeted programs: \$0.9 million from the Access to Opportunities Program (ATOP), \$0.8 million from a special grant restricted to operating and renovation expenses in the OVC (Ontario Veterinary College) and \$0.5 million in capital facilities renewal program. Each of these amounts has been restricted for incremental expenses in the designated programs. The remainder consisted of a small increase of \$0.7 million in general operating grants due to minor adjustments in the total university system allocation.
- Revenue recognized under the contract with the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA) (15% of total revenues) declined by \$4.1 million reflecting a general decline in cash spent by operating units. (Advances received from OMAFRA totaled \$54 million however only funds spent are recognized as revenues. The difference between advances and expenditures in the period is recorded as deferred revenue.) The \$4.1 million remains available for spending

**1999/2000 University Revenues
 By Source -Total \$349.5 million**

Graph A



1998/99 in (%) \$338 Million

by units in the following year. This level of under spending partially reflects planning by units for the \$3.5 million reduction in contract funding announced by OMAFRA effective fiscal 2001.

- **Total Tuition/Enrolment** revenue (17% of total revenues), increased by \$7.6 million to \$61 million due to increases in both credit and non-credit course revenues. The revenue increase from **MTCU credit enrolment** was \$7.3 million. This amount is the gross increase before allowances of 30% for MTCU mandated increases in expenditures for student aid (see note on Student Aid). The remaining increase in tuition was due to additional revenues from continuing education and training courses offered by the Office of Open Learning and the OMAFRA colleges.
- Sales of Goods and Services (19% of total revenues) increased by \$3.9 million or 6.3%. The largest increases occurred from increased sales in the OVC hospital (\$1 million) and a general increase in the sale of

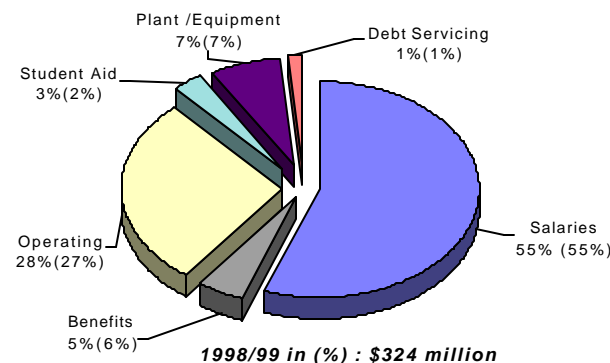
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produce/livestock/services under the OMAFRA contract - \$0.6 million. In addition, a net increase of \$1.7 million in revenues was realized by all Ancillary Enterprises (see detail on page 6). The balance of \$0.9 million was a net increase in revenues from a variety of activities such as laboratory and health services cost recoveries in the Operating Fund.

- EXPENSES in all funds totaled \$332.7 million (see Graph B), an increase of 2.7% from fiscal 1999 (\$324 million)
 - Salaries (55% of total expenses) increased by \$5.2 million or 2.9% mainly due to the impact of negotiated salary agreements.
 - Benefits (5% of total expenses) consist of both pension related and non-pension employer costs. On a cash basis employer non-pension benefits costs increased by 8.9% to \$23.3 million (1999 \$21.4 million). Offsetting this increase was a non-cash credit of \$7.4 million as a result of the calculation of “pension expense”. The calculation of pension expense (a non-cash item required by the C.I.C.A. Canadian Institute of Chartered Accountants for financial statement purposes only) is based on accrued service obligations and interest on pension plan surpluses. In the last four fiscal years including fiscal 2000, pension expense was historically low due to large pension plan surpluses mainly generated by higher than average market returns on pension assets. Over time, surpluses will decline as investment results return to levels more consistent with assumptions. As this occurs pension expenses will increase to levels greater than contributions. In anticipation of the increased pension expense, for financial statement purposes, the University follows the practice of charging/crediting, each year, an amount approximating the difference between contributions and the pension expenses. This difference (\$7.4 million in fiscal 2000) is recorded as a pension appropriation in the Operating Fund balance (refer to Statement 3, page 4 in the audited financial statements.)
 - Operating Expenses (28% of total expenses) increased by \$3.1 million or 3.8%. The increase is due to no one single event. Purchases of equipment supplies and services increased due to a general increase in costs from both increased enrolments and research activity.
 - Total University spending on ‘Scholarships and Bursaries’ increased by \$2.1 million or 27% to \$9.974 million over fiscal 1999. \$1.4 million or 67% of this increase was funded from tuition revenue increases in the Operating Fund. The remaining increase in total student assistance was the result of increased spending from endowments due to

**1999/2000 University Expenses
By Type - Total \$332.7 million**

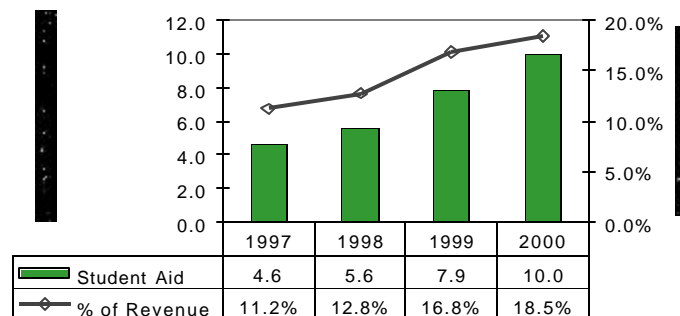
Graph B



implementation of the ACCESS program (see following section on Endowments). This spending reflects a 117% increase in student aid funding since 1996/97 and now equals approximately 18.5% (11% in 1997) of total credit tuition revenues (refer to Graph C).

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

Graph C



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ENDOWMENTS:

The Endowment Fund (total investments of \$118.5 million) is composed of **restricted** segregated funds provided by external benefactors or established by the Board of Governors. Only investment income earned on these funds, after having provided for inflation protection and in specific cases growth, may be expended for the designated purpose. The Endowment Fund consists of two major groups of investments each with different spending objectives: the Heritage Fund (investments of \$33.1 million) and the General Endowment Fund (investments of \$85.4 million).

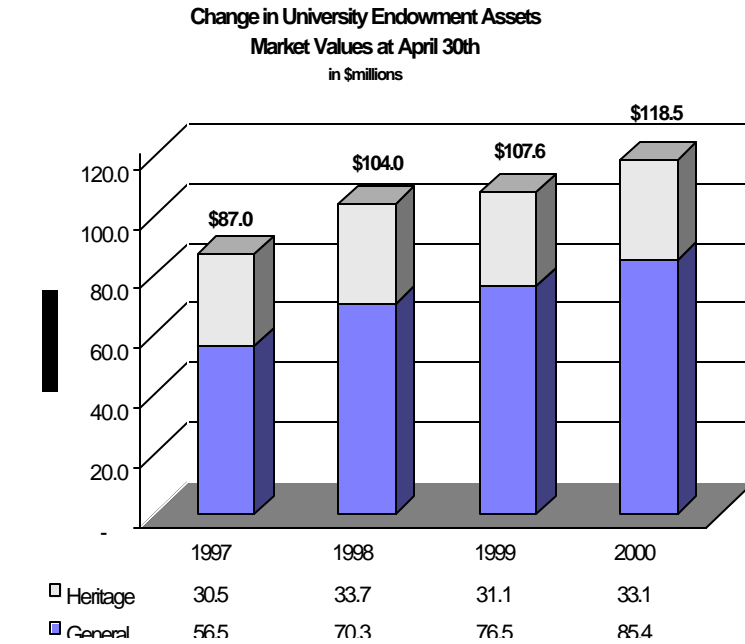
The Heritage Fund was created in 1991 by a declaration of trust of the Board of Governors with the sole intention that the capital of the Fund will be held in perpetuity for University strategic purposes. The main sources of growth for the Fund are proceeds of University real estate sales and leases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

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

- In total, the **market value** at April 30th of all endowment **investments** had increased by \$10.9 million from \$107.6 million in 1999 to \$118.5 million in 2000 or 10.1% (refer to Graph D).

The increase in market value is the result of both investment returns and increased capital additions net of cash required for disbursements (in accordance with restrictions). Market investment returns were improved significantly from 1999 when results were negatively impacted due to general market conditions. Fiscal year 2000 investment returns were approximately 7.5% (-0.2% in 1999) for the Heritage Fund and 10.6% (4.5% in 1999) for the General Endowment Fund.

Graph D.



Note. All values include equity in the Cutten Club- \$3.3 million at April 30 2000.

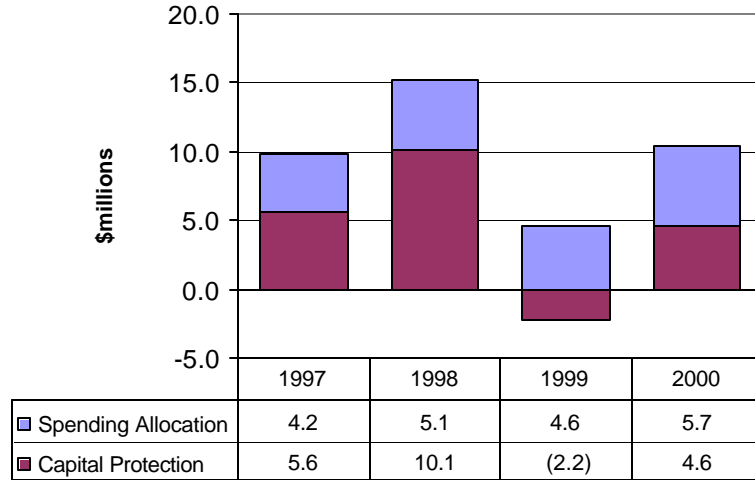
- **Endowment Investment Income:** The University's endowment management policy uses long-term investment assumptions in which investments are averaged over a moving four-year period in determining both investment performance and disbursement targets. The annual spending rate of the General Endowment Fund is restricted, (currently 5%). Each year the difference between actual returns and the disbursement rate is accumulated in the endowment fund to provide for capital protection and growth and if required to supplement annual returns to meet the disbursement targets. Total endowment investment income from endowments was \$10.3 million (1999 \$2.4 million) Although under accounting rules for financial statement presentation, the Endowment Fund records no direct revenues or expenses, approximately \$5.7 million of the total investment earnings were made available for disbursement. The balance of \$4.6 million was added to

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the endowment to provide for future inflation protection and growth. (see Graph E).

Graph E.

Allocation of Endowment Investment Income



- **Endowment Contributions:** Endowment Contributions record the annual impact on the Endowment Fund of capitalized investment income, new donations and any equity accounting adjustments due to the University's ownership interests in GUARD and the Cutten Club.

Total endowment contributions for the fiscal 2000 of \$12.0 million were significantly higher when compared to 1999 results of \$1.9 million. (In 1999, endowment contributions from investment were significantly below normal as a result of lower investment income due to general equity market conditions.)

Of the total fiscal 2000 increase of \$12.0 million, \$4.6 million was due to investment income endowed to provide for capital protection (see previous note). \$0.6 million were funds transferred to the Heritage

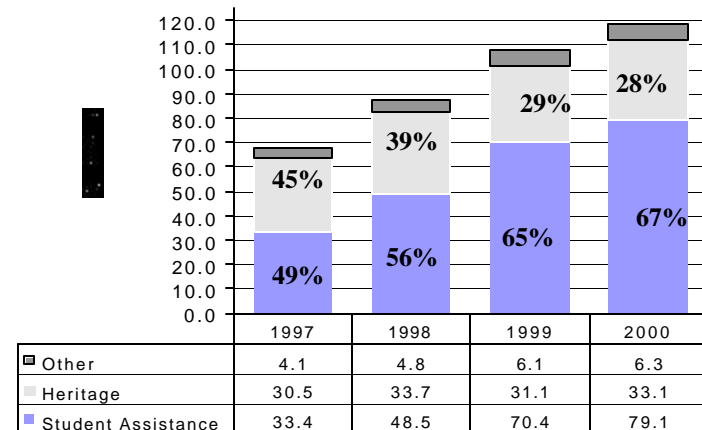
Fund from Real Estate net proceeds and \$6.8 million was due to additional donations to capital received during the year. \$4.1 million of these donations were received under the 'Access Fund' or Ontario Student Opportunities Trust Fund program. In 1996 the province announced an incentive program directed at raising external donations to be endowed in support of financial needs-based student aid. Under this program the province agreed to match dollar for dollar external donations pledged by March 31, 1997 and received by March 31, 2000. To the end of fiscal 2000 and the completion of the fund raising portion of the program, total cash contributions received or pledged had reached \$20.4 million made up of equal parts of private donations and 'matching' provincial funds. (Endowed contributions are recorded as a direct increase to the **Endowment Fund** and not revenue, for accounting purposes)

- With the completion of the ACCESS program and related investment income now some 67% of the total University endowment is designated for student aid. (see Graph F)

Graph F.

Distribution of Endowed Fund Balances

67% of total University Endowments for Student Aid



* "Other" includes the University's equity in the Cutten Club and research endowments

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➤ **Capital Fund:**

Financial Statement Presentation: In the audited financial statements, the Capital Fund records all of the University's capital building, equipment and library acquisition costs for all funds except for Ancillary Enterprises. For financial statement purposes only, revenues in the Capital Fund, do not record capital contributions until the related capital asset is amortized. (Until recognized as revenues, external capital contributions are recorded as deferred contributions in the liability section of the statements.) The major expense of the Capital Fund is the amortization (or depreciation) of capital asset costs. Acquisition costs of capital assets are accumulated in four major asset classes; building, equipment, land improvements and library books. Expenses are charged (amortized) in the Capital Fund over the estimated useful life of each asset class (refer to the Financial Statements, page 7, for the amortization period of each asset class).

- In the equity section or Fund Balance of the Capital Fund the account 'Investment in Capital Assets' records the net book value less any debt or restricted contributions associated with capital assets. This represents the University's residual equity in its capital assets.
- In the fiscal 2000 **financial statements** there were no significant changes to Capital Fund income or expenses when compared to 1999. The net book value of Capital Fund assets increased by \$7.0 million to \$195.9 million reflecting acquisitions and work-in-progress in several large building/renovation projects of \$25.2 million (details in following note) less capital asset amortization of \$18.2 million.

The following describes the major capital acquisition and funding activity that occurred during the year. Although this activity is not apparent in the audited financial statements, it is reflected in the cash flow, additions and deletions related to capital assets.

- **Major capital contributions received (total \$50.2 million);**
 1. Facilities renewal grants totaling \$2.7 million were received from MTCU. This reflected a significant one-time increase from the normal annual contribution received from the province (\$1.035 million) intended to address deferred maintenance repairs and renovations for the campus physical plant infrastructure. Given University buildings age and usage and past deficiencies in

funding, of at least \$60 million in deferred maintenance costs have been estimated. Facilities renewal funding is therefore normally allocated to deal with the highest priority items such as safety and emergency repairs.

2. The University received \$45.0 million under the Super Build Fund. Announced by the province in 1999, this program was designed to address both enrolment increases and facilities renovation needs in Ontario. The University has designated these funds for the construction of a major science and learning complex. During the planning stage of this facility, the funds received have been invested in cash and short-term deposits and fixed income securities. (In accordance with Super Build guidelines, investment returns on these funds are restricted for use toward the project construction costs, refer to note 18 on page 16 of the Financial Statements). The Super Build investment accounts for \$42.7 million of the total increase of \$54.1 million in University Investments (the remainder of the total increase in investments of \$11.4 million was accounted for by Endowments – see previous section on Endowments).
 3. Remaining capital receipts of \$2.5 million are the result of capital purchases primarily from research grants and contracts such as the CFI (Canada Foundation for Innovation).
- **Major acquisitions/disbursements (\$25.1 million)** recorded in the capital fund during the year included:
 1. \$4.1 million for the new addition to the Thornbrough building funded from ATOP (Access to Opportunities Program) grants and enrolments.
 2. \$1.4 million in costs incurred to renovate Mills Hall (to be funded by Student Housing Services)
 3. Major equipment purchases and renovations funded by both departmental transfers from the Operating Fund and external research grant/contract funding transferred from the Research and Trust Fund -\$10.8 million (1999 -\$11.7 million).
 4. Minor capital renovations and maintenance projects including research infrastructure -\$4.5 million (1999 - \$1.5 million) funded from specific provincial and federal grants.
 5. Library acquisitions - \$4.3 million (1999 - \$4.2 million).

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➤ **The Research and Trust Fund:**

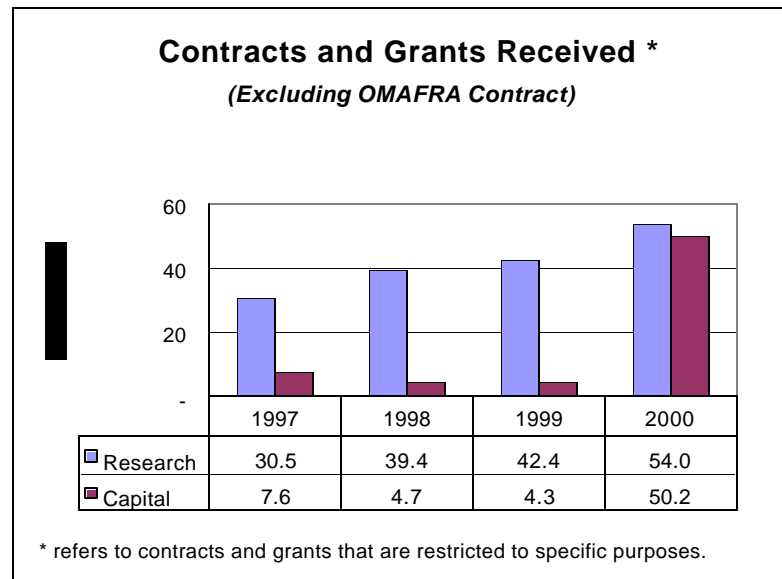
This fund reports contributions primarily by outside organizations in the form of **restricted** research contracts and grants. Although reported as one fund on the financial statements, the Research and Trust Fund consists of about 4,000 individual accounts that record both revenues and expenses for each grant, contract or special purpose. Major sources of funding include federal research grants such as those from NSERC (Natural Sciences and Engineering Research Council), SSHRC (Social Sciences and Humanities Research Council) and MRC (Medical Research Council) and contracts from industry for sponsored research projects. In fiscal 2000, the University started to receive significant funding (approximately \$10 million) under the Canada Foundation for Innovation program (CFI). Under this program the University is expected to receive over \$83.0 million over the next several years from federal (40%), provincial (40%) and private sector (20%) contributions. Funds are designated for specific research projects.

Additional major expenditures in this fund included scholarships and bursaries of \$5.5 million funded from both annual donations and endowment investment income transferred to this fund from endowments for disbursement.

It is important to note that this fund records only a portion of the estimated total University research activity of \$80 million in fiscal 2000. The balance is funded as part of the OMAFRA contract .

- revenues recognized in the financial statements in this fund increased by \$1.6 million or 3% to \$53.1 million (\$51.5 million in 1999). On a purely cash flow basis, research receipts, excluding the OMAFRA contract, totaled \$54 million (refer to graph). This reflected an increase of \$11.4 million in contract contributions when compared to 1999, received primarily from the CFI program. (Note because research receipts are mainly restricted by the contributor, they are not recognized as revenue until spent in accordance with C.I.C.A rules for financial statement reporting.)
- Expenditures in this fund increased in proportion to revenues reflecting the restricted nature of these revenues.

Graph G.



➤ **The Ancillary Enterprises Fund:**

The Ancillary Enterprises Fund with revenues of \$50.2 million or 14% of total University revenues (1999 revenues of \$49.1 million) reports activities of the University not directly related to academic and infrastructure reported in the Operating Fund. Ancillary units are responsible for any operating shortfalls, capital amortization costs, interest costs and all other support costs incurred in their operations. Individual annual budgets are prepared and approved for each of these operations. Results by unit are detailed in Schedule 1 of the annual audited financial statements

In comparison to 1999, **total revenues** in the Ancillary Fund increased by 2.2% (\$1.1 million) to \$50.2 million. This increase is mainly attributable to an increase in revenues in the Real Estate Division of \$0.700 million from housing sales in the “Village by the Arboretum” development and the sale of a small property. Other Ancillary Fund operations had very small increases or decreases. Net Income in all Ancillary Units was positive with the exception of:

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- Student Housing Services which recorded a small loss of \$89,000 due to the recognition of negative investment income (recorded using market values) of \$114,000 on fixed income securities held for debt repayment. As these securities will be held until maturity this unrealized loss is not considered permanent and will not negatively impact the unit's ability to make debt repayments. All other operations within the unit recorded a net positive result and the unit allocated an additional \$0.150 million towards its capital reserve increasing the total to \$0.300 million .
- University Centre with a loss of \$79,000 due to investments in minor repairs funded from prior years' surpluses.

➤ **The Operating Fund:**

The Operating Fund records the revenues and expenses for most of the University's day-to-day academic and institutional infrastructure activities. It is the largest fund with approximately 67% of total University revenues.

Operating Fund Revenues (total 2000 revenues of \$235.7 million, (see graph H on next page). Operating grants from MTCU, a contract transfer from OMAFRA (the Ontario Ministry of Agriculture, Food and Rural Affairs) and tuition, both credit and non-credit revenues provide the three largest components of revenue in this fund. Together they account for 38%, 22% and 26% respectively, of total Operating Fund revenues. Remaining revenues of 14% are from miscellaneous sales of goods and services by a variety of academic and service units and investment income.

OMAFRA Contract: Included in the Operating Fund is OMAFRA contract activity (2000 total expenses of \$66.3 million). These expenses are funded from a provincial transfer of \$50.7 million and related miscellaneous revenues from the sale of goods and services and diploma and non-credit enrolments of \$15.6 million. In total the OMAFRA contract equals 28% of total Operating Fund revenues. These revenues and expenses are treated as a separate restricted account within the Operating Fund. This is a requirement of the unique (in the Ontario university system) research and education contract

between the University of Guelph and OMAFRA. On April 1, 1997 the contract was significantly expanded under an "enhanced partnership" agreement whereby the University assumed operational responsibility for six units of the Ministry, including three Colleges of Agricultural Technology (CAT's), two laboratories, and a horticultural research station. It should be emphasized that under the terms of the contract with the Ministry, use of OMAFRA funds is restricted for approved contract expenditures. These funds cannot be used for other expenses or supported by other revenues and the contract must be fiscally balanced. It therefore has no impact on the net income of the Operating Fund.

Operating Fund Expenses (total of \$215.4 million - see graph I on next page): Salaries and benefits compose 75.6% of total Operating Fund expenses down from 78.1% in fiscal 1999. Salaries (excluding benefits) increased by 2.6% primarily due to negotiated settlements with employee groups. Benefits had declined by a net 28% or \$4.5 million as a result of the pension expense accounting credit offsetting increased employer benefit costs (see earlier note on pension expense on page 2). The next largest expense increase was for scholarship and bursaries which increased 45% or \$1.4 million to \$4.5 million funded from increased tuition.

Overall, the Operating Fund achieved the **four key budgetary** objectives set in 2000:

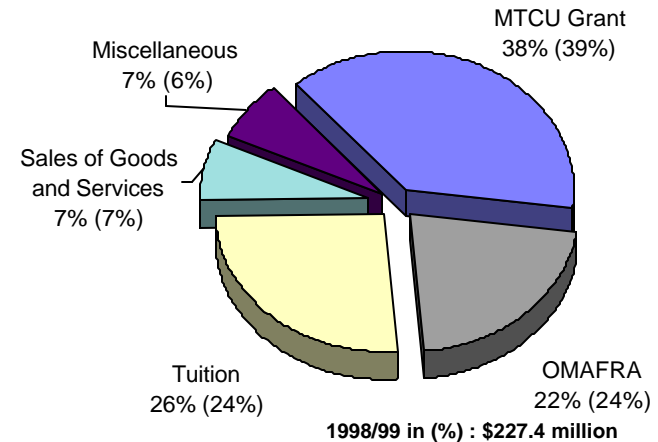
1. Meet the Board approved deficit repayment schedule.
2. Identify \$0.950 million to help achieve the 2000/2001 budget target as approved by the Board in April.
3. Keep all remaining components of the budget in balance.
4. If possible identify funds to guard against unexpected budget adjustments such as the reduction in performance-based operating grants introduced by the province in fiscal 2001 (referred to as a Stabilization Fund first formally identified in the 2000/2001 budget process).

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- **Repayment of the Operating Deficit:** Total net income in the Operating Fund was \$20.3 (1999 \$18.0 million.) These funds were applied to:
 - Transfers by departments of **\$10.1 million** to restricted funds mainly for equipment purchases, renovations and capital projects.
 - **\$2.2 million** to reduce the deficit, incurred from prior years restructuring costs, to \$8.3 million (\$10.5 million in 1999) in accordance with the Board-mandated deficit repayment schedule.
 - Total appropriations in the Operating Fund increased by a net amount of **\$8.0 million** to \$33.8 million. Of the total increase,
 - **\$7.4 million** was committed for future **pension expense**. The appropriation stands at \$26.8 million at the end of fiscal. Refer to the note on Benefits on page 2 above.)
 - **\$2.0 million** was allocated for the creation of the Stabilization Fund (refer to budget objective #4 above). These funds, which were allocated from institutional revenues and expense savings, will be carried into 2000/2001 to provide for unexpected budget shortfalls or opportunities
 - Partially offsetting the above increase was \$1.3 million less committed for “Appropriations for Supplies and Equipment” reflecting a reduction in funds available for contingencies. Out of total funds in this category of \$4.5 million, \$0.950 million was allocated from institutional net revenues and savings. These funds will be carried into fiscal 2001 to meet the overall University budget target (refer to budget objective #2 above). All remaining appropriations (\$3.55 million) are designated for future departmental purchases such as outstanding purchase orders, renovations and one-time capital projects. The total appropriation in this category as a percentage of expenses is 1.6%, below normal historical levels of 2.5% to 3.5% and policy limits (maximum of 5%).

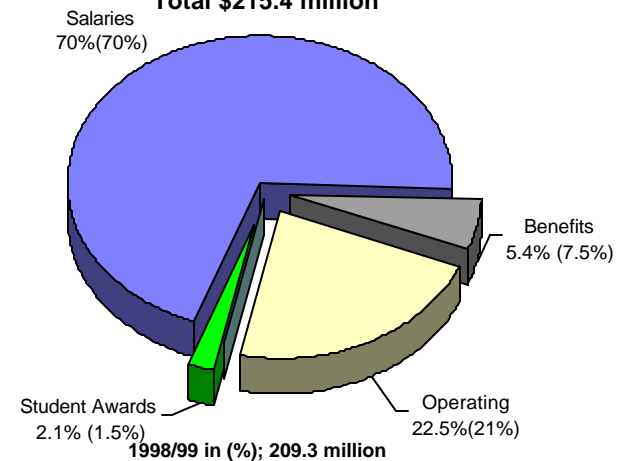
1999/2000 Operating Fund Revenue
Total \$235.7 million

Graph H.



1999/2000 Operating Fund Expenses
Total \$215.4 million

Graph I.



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➤ **University Summary – All Funds - Fund Balances:**

Total University income received in fiscal 2000 from all funds was \$349.5 million. Total Expenses were \$332.7 million. Revenues less Expenses was therefore \$16.8 million (\$14.0 million in 1999). In order to complete the total calculation of changes in fund changes, \$11.4 million in contributions to endowments is added to the \$16.8 million generated from operations. The result of \$28.2 was allocated in accordance with external restrictions, Board policy and future budget and expenditure requirements.

The following notes and table summarizes the distribution of changes to fund balances based on fiscal 2000 financial results:

- Invested in Capital Assets - increase of \$3.5 million (1999 - \$2.4 million) records the net change in the University's equity in its capital assets. This account increased as a result of an increase in net book value of capital assets (acquisitions greater than amortization) and the reduction in debt on the University's capital assets (which increases our equity).
- Endowed Funds - increase of \$12.0 million (1999 - \$1.9 million) records the increase in restricted endowments due to investment income of \$4.6 million endowed for inflation protection growth, \$6.8 million in new donations/contributions and \$0.6 million in 1999 Real Estate proceeds transferred to the Heritage Trust. Note: The Endowed Fund Balance of \$104.4 million is that portion of endowed investments (total \$118.5 million) designated for initial donated capital plus accumulated investment earnings allocated for inflation protection and growth. The balance of investments are designated for spending in accordance with Board approved policies (\$11.5 million) or have been advanced to the endowment fund for investment purposes only (\$3.0 million).
- Appropriations increase of \$9.4 million (\$7.1 million in 1999) records funds committed for specific purposes such as outstanding purchase commitments, departmental funds, research, capital replacement, future pension expenses and stabilization funds.
- Unappropriated Funds - Ancillaries - increase of \$1.1 million (1999 - \$1.2 million) records fund balances uncommitted for special expenses. \$1.2 million of the increase is fiscal 2000 Real Estate proceeds

designated for transfer to the Heritage Trust in fiscal year 2001. All other ancillaries had a small \$0.100 million net decrease covered by accumulated balances from prior years.

- Unappropriated - Operating Fund - fund balances increased by \$2.2 million reducing the restructuring deficit to \$8.3 million in accordance with the Board approved repayment plan.

1999/2000 UNIVERSITY RESULTS
Summary of All Funds

(\$millions)

	Opening Fund Balances	1999/ 2000 Results	Closing Fund Balances
Total University Revenues		349.5	
Total University Expenses		332.7	
Revenues Less Expenses		16.8	
Add: Endowment Contributions: <i>recorded as a direct increase in Fund Balance not Revenue.</i>		11.4	
Equals: Increase in Fund Balances		28.2	
 UNIVERSITY FUND BALANCES:			
Invested In Capital Assets	44.0	3.5	47.5
Endowed Funds	92.4	12.0	104.4
Appropriated (all funds)	44.2	9.4	53.6
Unappropriated- Ancillaries	0.7	1.1	1.8
Unappropriated- Operating Fund	(10.5)	2.2	(8.3)
 Total Fund Balances	170.8	28.2	199.0