

UNIVERSITY OF GUELPH
SUMMARY OF FINANCIAL RESULTS AND
AUDITED FINANCIAL STATEMENTS

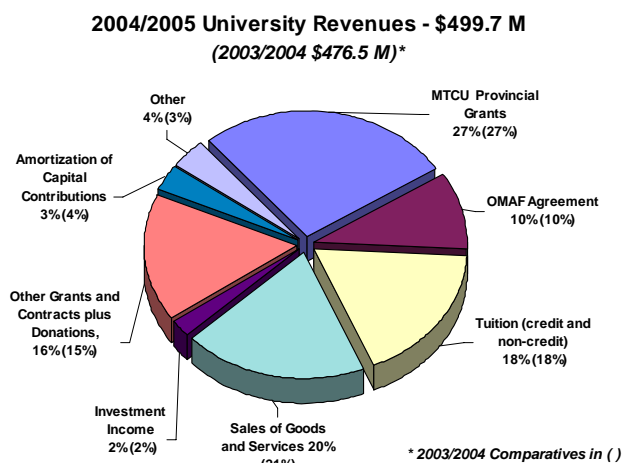
For Fiscal Year Ended
April 30, 2005

University of Guelph
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 For the fiscal year May 1, 2004 to April 30, 2005

The following report summarizes University financial results for the year ended April 30, 2005 (referred to as fiscal 2005) as presented in the audited financial statements. Unless otherwise noted, all dollars are expressed in millions - "M"

The University of Guelph receives funds from a variety of different sources (see Graph A). Many of these funds are restricted by the agency, organization or donor as to use and may not be used for general operating expenses. As a result, the University records its financial activities on a fund accounting basis where financial transactions are segregated according to major University activities, external restrictions on funding and the expendability of funds. (A fund is a self-balancing set of financial accounts including both balance sheet and income statement accounts.) The University currently reports on five different funds: Operating, Capital, Ancillary Enterprises, Research and Trust and Endowment. A description of each of these funds can be found on page 18.

Graph A



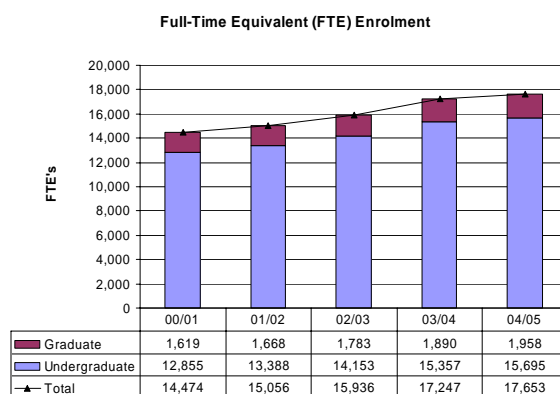
Summary of Significant Events

The fiscal 2005 financial statements reflect the financial impact of several significant events. The following is a summary of these events; further detailed analysis of these and other highlights of fiscal 2005 results are contained in the balance of this report.

- Consolidation of Growth in Enrolment:** In the prior fiscal year, 2003/2004, the University absorbed the first-year impact of the "double cohort" (elimination of grade 13 in Ontario) where a new curriculum grade 12 and the final year of grade 13 students graduated together in the spring of 2003. In response to the resulting increased demand for post-secondary education, the University increased its main campus intake of first-year students to 4,700 (24% increase).

In fiscal 2005, the University reduced its first-year intake to 3,900 as part of its overall strategic plan to hold total main campus enrolment to 18,000 FTE's (Full-Time Equivalents where part-time and part-year student enrolments are converted to full-time equivalents). The reduction in the intake of first-year students in 2004/2005 did not result in a reduction in total enrolment because of the progression of prior years' relatively large first-year enrolments through to graduation. The University's total enrolment increased in fiscal 2005 by 2.4% to 17,653 FTEs (refer to Graph B).

Graph B



This increase is the continuation of growing enrolments at the University (22% increase since 2000/2001), reflecting the University's commitment to respond to the increasing demand for university education in the province and the provincial government's willingness to fund this growth through a number of targeted grant programs. Financially, the result was a combined increase in provincial operating grants and tuition revenue of \$10.6 million or 45% of the total University's increase in revenues in fiscal 2005. Ministry of Training, Colleges and Universities (MTCU) Operating grants increased by \$8.6 M or 6.8% and credit¹ tuition revenues increased by \$2.1 M or 2.7 %. (MTCU Operating grants were allocated to post-secondary institutions mainly based on each institution's share of enrolment increases. The 2004/2005 level of these grants at the University of Guelph reflects both increases in enrolment in

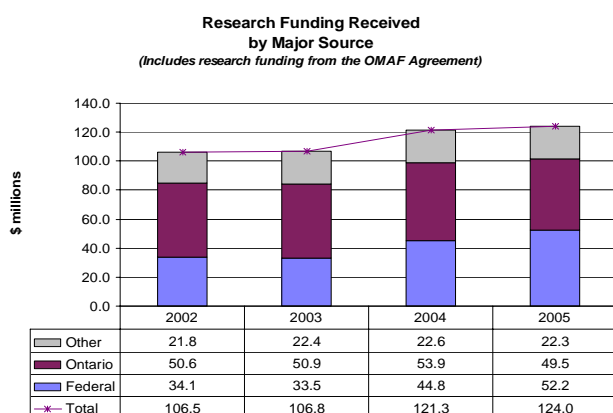
¹ The University receives tuition revenues under a variety of different programs. "Credit" programs refers to those graduate and undergraduate programs whose tuition rates are regulated and for which the University receives operating grant funding under specific guidelines set by the provincial government and administered by the Ministry of Training, Colleges and Universities (MTCU). 90% or \$80.1 M of the University's total tuition revenue of \$88.8 M received in 2004/2005 was earned under credit programs.

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2004/2005 and a retroactive allocation made for prior increases. In addition, the university received a \$1.7-million grant to offset a provincially mandated “freeze” on all regulated tuition fees in 2004/2005.)

- Research Grants and Contracts:** Revenues recognized in the financial statements as being earned from Other Grants and Contracts increased by \$10.6 million or 16% in fiscal 2005. This increase, which is 45% of the total increase in University revenues in 2004/2005, reflects the recent success of the University in attracting new research funding primarily from competitive peer-reviewed federal government agencies including NSERC (Natural Sciences and Engineering Research Council), SSHRC (Social Sciences and Humanities Research Council) and CFI (the Canada Foundation for Innovation). Refer to the section on the Research and Trust Fund for further details. The following chart (Chart C) shows the growth in research funding actually received by the University which now stands at \$124.0 million from all sources. This level of funding maintains the University’s position as one of the most research - intensive universities in Canada.

Graph C



Of the total funding received, \$33 million was recorded in the Operating Fund as part of the agreement with the Ontario Ministry of Agriculture and Food (refer to the section on “revenues” on page 3). The balance of the funding received was mainly from external sponsors and was restricted for specific research projects/expenses, and therefore, could not be immediately recognized as revenue.²

² Research funding is restricted for specific purposes mainly by external sponsors, and under accounting rules, cannot be recognized as revenue in the financial statements until the designated expenses are incurred. Therefore, while actual funding (cash) may be received in a fiscal year, it may not be recognized or recorded as revenue until future years. In the interim, the

- Salaries and Restructuring Costs:** In fiscal 2005, the University’s total recorded salaries increased by \$20.5 million or 8.7%. (This increase alone accounts for 80% of the University’s increase in total expenses of \$25.8 million or 5.3%.) Of the increase in salaries, \$11.2 million or 55% were restructuring costs³ associated with the University’s budget plan to discontinue certain positions over the 2004/2005 and 2005/2006 fiscal years. The University has received Board of Governors approval to repay these costs by 2010/2011 at a minimum rate of \$2 million per year, starting in fiscal 2005/2006. The balance of the net increase in salaries of \$9.3 million reflects a 4% increase in costs consisting of both negotiated increases and certain additional appointments made to address the growth in enrolments and research activity.
- Capital Acquisitions:** The University initiated a number of major capital projects starting in 2002/2003 to meet its strategic planning objectives to improve existing facilities, including the reduction of deferred maintenance and to provide new space to meet the needs of additional planned enrolments. In support of these plans, the University recorded a major increase in its external debt in fiscal 2003 as the result of its issuance of a \$100-million, 40-year debenture. The proceeds of this additional debt are designated to finance major capital projects in the context of long-term strategic plans. Fiscal 2005 saw the continuation of this major capital construction program with the acquisition of \$80.4 million (\$88.3 million in fiscal 2004) in capital assets, over half or \$42 million of which were related to the University’s major “SuperBuild”⁴ project. Other acquisitions reflect the combined impact of both increased research funding under the federal government’s CFI program and a

funding is recorded as a Deferred Contribution on the University’s Statement of Financial Position (refer to page 19 for the accounting policy on revenue recognition.)

³ Restructuring costs are lump sum payments made to employees approved by the University under incentive programs to either resign or accept early retirement. Two programs in each of 2004/2005 and 2005/2006 were approved by the board with total costs of each program not to exceed \$12 million. Note that some of the costs of the 2005/2006 program have been accrued in 2004/2005, reflecting accounting rules which require recording of expenses when a buy-out arrangement is approved and signed by both the University and the employee.

⁴ “SuperBuild” refers to the provincial government’s 2001 capital program designed to create new physical space for the “double cohort”. Under this program, the University received \$45.0 million in 2002 toward the construction of new teaching (Rozanski Hall) and science buildings and smaller amounts in subsequent years for a number of deferred-maintenance and academic building projects.

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general increase in teaching equipment purchases and renovations funded from new enrolment revenues.

By the end of fiscal 2004, most of the financing for these capital acquisitions had been provided from government grants (in the case of SuperBuild projects) and operating/research fund revenues (teaching and research equipment). By the end of fiscal 2005, the University had used \$40 million of the \$100-million debenture, which had been previously invested in short-term high-quality investments. The use of these funds is reflected in the decline in recorded investments, specifically the "Short-Term Note and Bonds" category which declined \$35.8 million over the course of fiscal 2005.

More Details on Major Changes in Fiscal 2005 - All Funds

REVENUES:

Revenues from all sources were \$499.7 million, an increase of 4.8% or \$23.2 million from fiscal 2004 (\$476.5 million). Increases were recorded in most major categories of revenues as a result of several years of growth in enrolments and research funding. The following summarizes the major changes in revenues compared to fiscal 2004:

- Provincial grants from the **Ministry of Training Colleges and Universities** (27% of total revenues) increased by \$8.6 million or 6.8%. Additional grants were received under MTCU's Accessibility and Quality Assurance Fund programs. Under these programs, revenues were earned only if institutions accepted additional enrolments (mainly undergraduate). No additional provincial funding was received to cover on-going operating cost increases due to inflation.
- **Tuition Revenue** (18% of total revenues) increased by \$2.0 million or 2.3% to \$88.8 million. Tuition Revenue consists of revenues earned for both credit courses (offered under MTCU funding guidelines) and non-credit courses, which include a wide variety of courses ranging from general continuing education to OMAF diploma and professional certification programs. (Non-credit courses are not eligible for funding support from MTCU.) Tuition revenue earned from MTCU credit-course revenues increased by \$2.1 million to \$80.1 million. This increase was almost totally due to the increased number of students (all regulated and most of the remaining credit-course tuition rates were not increased in fiscal 2005). Offsetting this increase was a small

decrease in non-credit tuition of \$0.1 million, due to the net impact of the wind-up of the OMAF Diploma Program at the Guelph campus (reduction of \$0.5 million) and offset by increases (\$0.4 million) in all other non-credit programs.

- **Sales of Goods and Services** (20% of total revenues) decreased by \$2.5 million or 2.5% and included:
 - a \$2.2-million decrease in the sale of produce/livestock, royalties and laboratory services under the OMAF agreement (described in more detail below);
 - a \$1.8-million decrease in revenues from housing and food services mainly as the result of the planned decreased enrolment of first-year students (refer to section on Ancillary Enterprises on Page 9);
 - a \$1.4-million net increase in revenues from services provided to the University of Guelph-Humber;
 - a \$0.1million net increase from a large variety of activities such as user fees charged for OVC (Ontario Veterinary College) teaching hospital services, laboratory, printing and the recovery of miscellaneous service costs.
- Provincial funding recognized under the research, teaching and laboratory contract agreement with the **Ontario Ministry of Agriculture and Food (OMAF)** (10% of total revenues) decreased by \$0.9 million or 2%, reflecting a decrease in provincial cash spent by operating units. Expenses reflected an equivalent reduction consistent with both restructuring efforts to reallocate resources to the direct support of programs and the completion of a major testing project in the Laboratory Services Division. OMAF agreement activities at the University have two sources of funding: funds from the province⁵ and general revenues earned from the sale of goods and services using provincial facilities. The general revenues are derived mainly from the sale of produce, tuition revenues and laboratory fees. Since fiscal 2000, these sources of revenue have grown significantly, which is a trend consistent with the objectives to both grow and diversify revenues under the contract. In fiscal 2005, however, sales of goods and services decreased by \$2.2 million, reflecting the completion of a major (limited-term) testing contract in the Laboratory Services Division. Business development plans are continuing with the objective of replacing this revenue and growing non-provincial revenues for all operations

⁵ *Because of the restricted nature of provincial funding under the contract with OMAF, recognition of revenue from provincial funds occurs only as these funds are spent. Unused provincial funds are recorded as deferred revenue on the University's balance sheet until required.*

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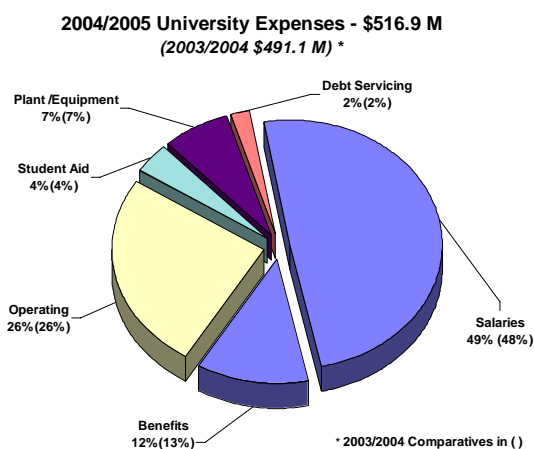
under the contract. This decrease in revenue was offset to some extent by a one-time payment from OMAF (non-contract) described in further detail under Other Revenue.

- **Other Revenue** (4 % of total University revenues) increased by \$3.4 million over fiscal 2004. Included in this increase was a \$2.2-million one-time payment from OMAF to fund repair and maintenance work on the research stations operated by the University under the agreement with OMAF. The remaining increase of \$1.2 million reflects an increase in a general level of activity across a wide variety of areas.

EXPENSES:

University Expenses totaled \$516.9 million (see Graph D), an increase of 5.3% or \$25.8 million from fiscal 2004 (\$491.1 million).

Graph D

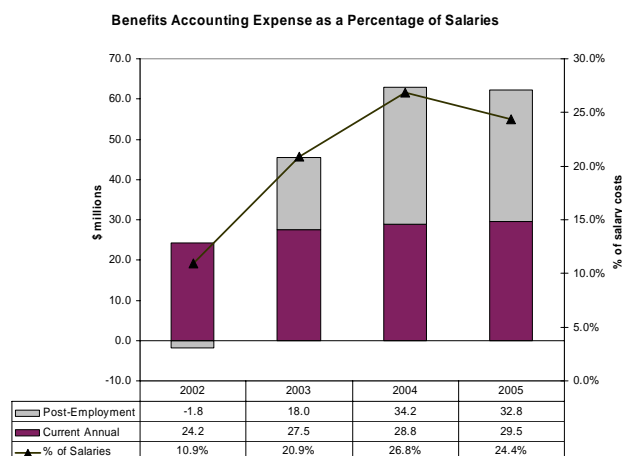


Major components of this change over last year are:

- **Salaries** (49% of total expenses) increased by \$20.5 million or 8.7%. One-time payments to employees for restructuring purposes accounted for over 55% of this increase. The remaining increase was due mainly to the impact of negotiated salary agreements and additional positions to support the total enrolment growth.
- **Benefits** (12% of total expenses) decreased by \$0.7 million to \$62.3 million or 24.4% of salaries (from \$63.0 million or 26.8% of salaries in fiscal 2004). For audited statement purposes, the University is required to follow specific accounting rules that are set by the Canadian Institute of Chartered Accountants (CICA) for post-employment benefit costs (both pension and post-retirement benefits for dental and extended health

programs). These rules require that all employer future obligations for employee post-employment benefits be accounted for as they are earned (accrued), not as they are actually paid (cash). Application of this standard can create significant changes in accounting expense from year to year. For example, under CICA rules, in fiscal 2003 post-employment benefits expense (non-cash) was \$18.0 million. The following year, it was \$34.2 million (refer to Graph E). This year, the post-employment expense was calculated as \$32.8 million, reflecting a small decline in expense because of an improvement in the market value of pension assets and partially offset by the impact of higher liabilities for both all post-employment benefits mainly due to lower long term interest rates. In recording the impact of these credits/charges, the University has (when application of the accounting rules created large non-cash credits) followed the practice of appropriating any major accounting credits for the purpose of covering the expected increases in calculated pension expense. In fiscal 2005, the remaining appropriation of \$1.1 million was drawn down to nil. (refer to Statement 3, page 16 in the audited financial statements.)

Graph E



Also introduced in fiscal 2005 were new accounting standards for expanding the disclosure of costs and potential changes in post-employment benefits costs (refer to Note 12 – Employee Future Benefits on Page 31).

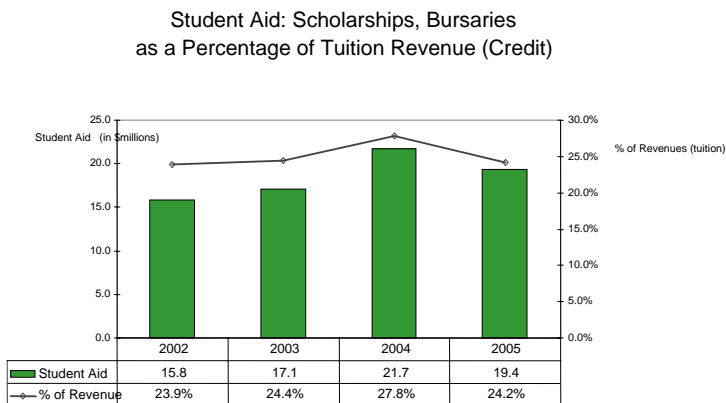
On a cash basis, total cash payments for benefits decreased from \$51.9 million in fiscal 2004 to \$43.4 million in fiscal 2005. Cash contributions for post-employment liabilities decreased by \$9.2 million from \$23.1 million in fiscal 2004 to \$13.9 million in fiscal

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2005 (fiscal 2004 contained a \$10-million one-time pension contribution to maintain the positive financial conditions of the pension plans). Cash expenses for other (statutory and negotiated) employer benefit costs (non-post employment related) increased by 2.5% or \$0.7 million to \$29.5 million (\$28.8 million in fiscal 2004).

- **Operating Expenses** (26% of total expenses) increased by \$6.6 million or 5.3%. Higher utility costs from both increased usage (new space and colder than average winter temperatures in 2004/2005) and rate increases accounted for \$3.0 million of this increase. The remaining increase reflects purchases of supplies, services and equipment due to increases in both enrolment and externally funded research activity.
- **Scholarships and Bursaries:** Total University spending on Scholarships and Bursaries decreased by \$2.3 million or 10.4% to \$19.4 million (\$21.7 million in fiscal 2004; refer to Graph F). Scholarships and Bursaries have two main sources of funding: the Operating Fund and externally restricted funds, e.g., grants, donations and endowments. The decrease in 2005 was within the Operating Fund (\$2.5 million), but was partially offset by an increase from externally restricted funds (\$0.2 million). This decrease reflects the lower number of first-year entrance awards as a direct result of lower intakes in the fall of 2005 (compared to the fall of 2004 – the year of the double cohort.). Student aid funding is now approximately 24.2% (27.8% in 2004) of total credit tuition revenues. Of the \$19.4 million, 45% is funded from the Operating Fund and 55% from trust (restricted) funds, including endowments.

Graph F



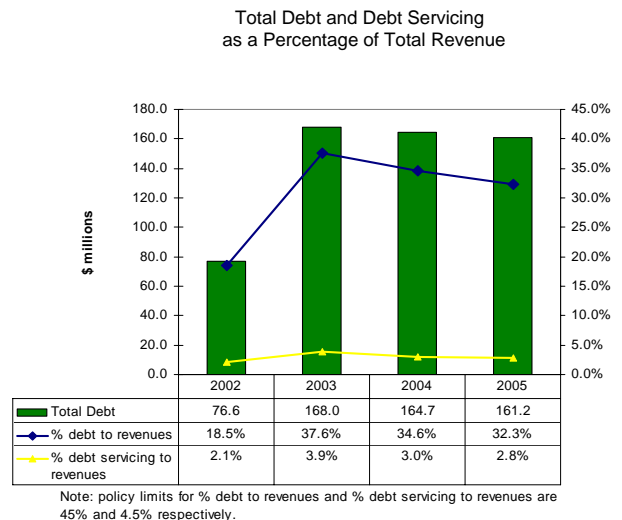
- **Capital Asset Amortization:** In accordance with CICA accounting requirements, the cash costs of major equipment and building acquisitions are not charged to

income as they occur but over the expected useful life of the related asset. (Refer to note 2 (f) on page 19 of the financial statements for the specific policy). The charge to income is called amortization (sometimes also referred to as depreciation). In fiscal 2005 this charge increased by \$1.7 million or 5% over 2004. This increase is the direct result of capital acquisitions (equipment, buildings and major renovations) over the past several years funded in large part by external grants. (Refer to the section on the Capital Fund on page 7).

LONG-TERM DEBT AND INTEREST:

In fiscal 2003, the University issued a \$100 million 6.24% unsecured debenture due in 2042. Debenture proceeds will continue to provide financing for major capital projects identified by the University as part of its strategic planning process. Projects targeted to receive these funds are Rozanski Hall, a major teaching classroom complex completed in the fall of 2003; an extension to the MacKinnon Building to provide faculty offices for the arts and social science, to be completed in fiscal 2006 and the new science complex to be completed in fiscal 2008. The total combined cost of these three projects is estimated at \$171.0 million. Funds from the provincial SuperBuild Growth Fund program, targeted federal and provincial grants and donations will also provide a significant portion of the funding for these costs.

Graph G



The cost of the debenture is reflected in the interest expense of \$10.7 million (\$10.8 million in 2004). Total external debt and debt servicing as a percentage of total University revenue are 32.3% (34.6% in 2004) and 2.8% (3.0% in 2004) respectively (refer to Graph G). The decline in total debt and both percentages

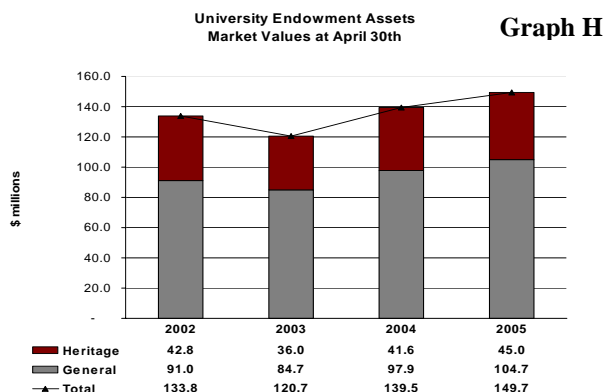
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from 2004 reflects both growth in total income and repayment of \$3.5 million in external debt.⁶ No additional debt was incurred in fiscal 2005. Both percentages are well within University policy limits of 45% and 4.5%, respectively.

The Endowment Fund:

The Endowment Fund (total investments of \$149.7 million, market values) is composed of restricted segregated funds provided by external benefactors or established by the Board of Governors. Under University policy, only accumulated investment income earned on these funds, after having provided for inflation protection, and in specific cases, growth, may be expended for the designated purpose. While all University endowments are pooled for investment purposes, there are two major endowment funds with different spending objectives: the Heritage Fund (investments of \$45.0 million) and the General Endowment Fund (investments of \$104.7 million). (Refer to Graph H).

University Endowment Assets
Market Values at April 30th



Graph H

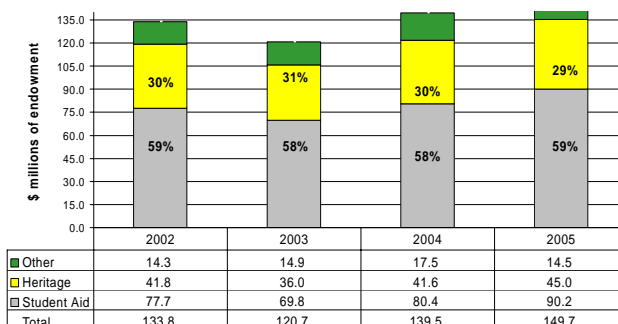
The **Heritage Fund** was created in 1991 by a declaration of trust of the Board of Governors with the intention that the capital of the fund be held in perpetuity for University strategic purposes. The main sources of growth for the fund are proceeds of University real estate sales, leases from Board-designated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

⁶ Total external debt repayment excludes internal "sinking" fund investments (\$6.4 million in fiscal 2005) that have been set up to retire interest-only debt. In the 2005 fiscal year, the University has started an investment portfolio with \$0.5 million for the purpose of retiring the \$100-million debenture debt owed in 2042.)

The General Endowment Fund contains all remaining University endowments recorded in 800 separate accounts and consisting of external and Board-designated donations directed mainly to student aid. Approximately 59% of all University endowments are allocated to student assistance (refer to Graph I).

Graph I

Allocation of University Endowments



The University's **General Endowment Fund** management policy uses long-term investment assumptions in which investments are averaged over a moving four-year period in determining both investment performance and disbursement targets. The annual spending rate of the General Endowment Fund is restricted (4.5% in fiscal 2005). The difference between actual returns and the spending rate is accumulated each year in the endowment fund to provide for capital protection, growth, and if required, to supplement annual returns to meet the annual disbursement targets.

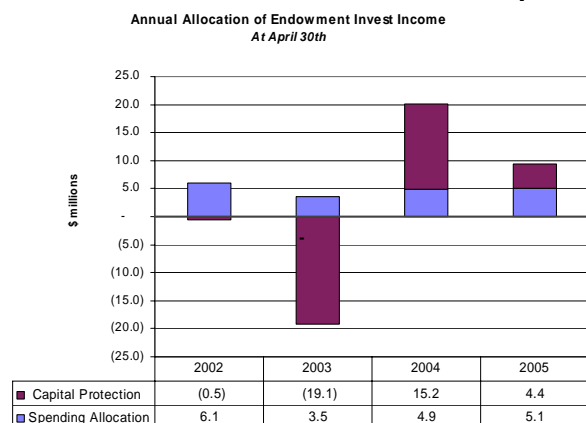
- In total, the market value at April 30th of all endowment investments had increased by \$10.2 million or 7.3% from \$139.5 million in 2004 to \$149.7 million in 2005 (refer to Graph I). The increase in market value is the result of investment returns of 6.7% (17.5% in fiscal 2004) and net capital additions of \$8.5 million less cash required for disbursements made in accordance with restrictions. (Gross capital additions for the year were \$12.2 million, but were partially offset by the transfer of the Cutten Club (\$3.7 million) into the Capital Fund.⁷)

⁷ In fiscal 2005, the Guelph Golf & Recreation Club Limited (Cutten Club), which was wholly owned by the University discontinued operations. The land, buildings and equipment were donated to the University and a new legal entity operated by the members was established. The University has entered into an arrangement with the new entity, which leases back the assets. To reflect this transaction, the University's existing Cutten Club investment of \$3.655 million, previously recorded in the Endowment Fund, has been eliminated. The related endowment fund balance has been transferred to the Capital Fund and additional capital assets of \$3.655 million have been recorded.

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- Total 2005 investment income (realized and unrealized) from all endowments was \$9.5 million, reflecting annual investment returns (compared to a \$20.1-million return in 2004). In fiscal 2005, in accordance with the University's spending policy, approximately \$5.1 million of the total accumulated investment earnings were made available for disbursement. The remaining investment income of \$4.4 million was added to the accumulated earnings from prior years (refer to Graph J).

Graph J



- **Endowment Contributions:** Endowment Contributions record the annual impact on the Endowment Fund of investment income and new donations.

Total net endowment contributions for fiscal 2005 were \$12.9 million (\$19.5 million in fiscal 2004). The increase of \$12.9 million recorded in fiscal 2005 consisted of:

- \$1.8 million (\$0.9 million in 2004) transferred to the Heritage Fund from real estate net proceeds;
- \$8.9 million (\$3.3 million in 2004) in additional donations to capital received during the year;
- \$4.4 million (\$15.1 million in 2004) due to 2005 investment income endowed to provide for long-term capital protection in accordance with University policy;
- \$1.5 million in unspent endowment investment income made available for spending in prior years that was permanently endowed in fiscal 2005;
- Less \$3.7 million recording the transfer of the Cutten Club endowed fund balance to the Capital Fund. This transaction reflects the discontinuance of Cutten Club operations and the donation of major Cutten Club capital assets to the University (which were subsequently leased back to a new private golf club owned and managed by its members.)

The Capital Fund:

Financial Statement Presentation: The Capital Fund records the University's capital building, major equipment and library acquisition costs for all funds except for Ancillary Enterprises. For financial statement purposes in accordance with CICA rules, external funding received for capital projects is not recorded as capital fund revenue until the related capital asset is amortized. (Until recognized as revenues, external capital contributions are recorded as deferred contributions in the liability section of the statements.) The major expense of the Capital Fund is the amortization (or depreciation) of capital asset costs. The cost of newly acquired capital assets in the fiscal year are recorded in major asset classes; land, land improvements, buildings, computer equipment, construction in progress, equipment, and library and art collections. Expenses are charged (amortized) in the Capital Fund over the estimated useful life of each asset class (refer to Note 2(f) on page 19 for the amortization period of each asset class). In the equity section or fund balance of the Capital Fund, the account Investment in Capital Assets records the net book value less any debt or restricted contributions associated with capital assets. This represents the University's residual (net of amortization and any external debt) equity in its capital assets.

In the fiscal 2005 financial statements, the net book value of capital assets increased by \$47.2 million (\$56.9 million in 2004), reflecting expenditures on capital and work-in-progress in several building/renovation projects of \$80.4 million (\$88.3 million in 2004; refer to Graph K) less capital asset amortization of \$33.1 million. These acquisitions will be funded through a combination of external grant or contract funding, e.g., the Ontario government's SuperBuild Growth Fund, endowments, donations and student residence user fees.

Capital Contributions and Acquisitions: Following is a description of the major capital acquisitions and funding activity that occurred during the year. Although this activity is not apparent in the audited financial statements, it is reflected in the cash flow – additions and deletions related to capital assets.

- **Major capital contributions received (total \$21.6 million) during the year;**
 - \$10.0 million (\$1.7 million in 2004) in facilities renewal grants were received from MTCU. The contribution is restricted for deferred maintenance repairs and renovations for the campus physical plant infrastructure. Given the age and usage of University buildings and past deficiencies in funding, at least \$200 million in deferred maintenance costs for buildings alone have been

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estimated. Facilities renewal funding is normally allocated to deal with the highest priority items such as safety and emergency repairs;

- \$0.5 million from the province was received for the Hospitality and Tourism Management teaching kitchen and restaurant project.
- \$1.5 million transferred from the Heritage Fund to assist in funding the University's new integrated data and voice communication system was approved and allocated in 2004/05.
- \$2.2 million was allocated from the research infrastructure grants to support a number of ongoing capital projects, such as critical deferred maintenance, upgrades to the University's central utilities plant, and an energy conservation retrofit.
- \$1 million (\$1.1 million in 2004) earned on invested funds received for the Ontario Veterinary College (OVC) pre-development project. (During 2003, \$37.3 million was received from the federal government for OVC redevelopment. The grant is invested according to the federal government investment guidelines, and these funds are restricted for the renovation and expansion of the veterinary hospital, laboratories and research buildings. This project is in the early stage of development, and to the end of fiscal 2005, \$3.5 million had been spent.)
- \$5.6 million was allocated from CFI and OIT (Ontario Innovation Trust) for the OVC magnetic resonance imaging (MRI) equipment (\$1.2 million), the Clinical Research II project (\$1.2 million), the Enhanced Health Assessment Lab (\$2.7 million) and some smaller projects (\$0.5 million).
- Remaining capital contributions of \$0.8 million are campaign donations used for the Hospitality and Tourism Management (teaching kitchen and restaurant) project, Rozanski Hall and the science complex.

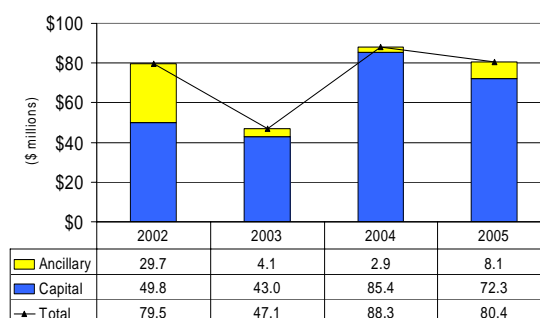
• **Major acquisitions during the year (\$80.4 million, refer to Graph K) include:**

- \$23.7 million for the science and teaching facilities financed with the SuperBuild provincial grant, campaign donations and the debenture (external debt);
- \$19.6 million in 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;
- \$7.6 million for the University's critical deferred maintenance projects, which are funded from the additional MTCU facilities renewal funding and the debenture financing;

- \$6.3 million on the transgenic greenhouse project, the new magnetic resonance imaging facility in OVC, Clinical Research II and the OVC enhanced health renovations funded by CFI and OIT;
- \$5.1 million for the development of the Stone Road retail by the Real Estate Division;
- \$3.7 million from the donated land, buildings and equipment of the Cutten Club (previously recorded in the Endowment Fund as an investment);
- \$2.9 million for the OVC master plan development, which is funded by \$37.3 million received from the federal government in 2003;
- \$2.3 million in expenses for the integrated voice/data communications system, bringing the project-to-date costs to \$14 million (total project when completed in 2006 will be \$14.2 million) funded from the Heritage Fund, grants and user fees;
- \$1.5 million for the MacKinnon addition, which is financed from the debenture;
- \$1.3 million on the Lennox-Addington coffee and dining room which is funded by Hospitality Services;
- A balance of \$6.4 million, which consisted of a combination of smaller renovation projects, equipment purchases in ancillary operations, in-kind donations and library acquisitions.

Graph K

Capital Acquisitions by Major Fund



Graph L

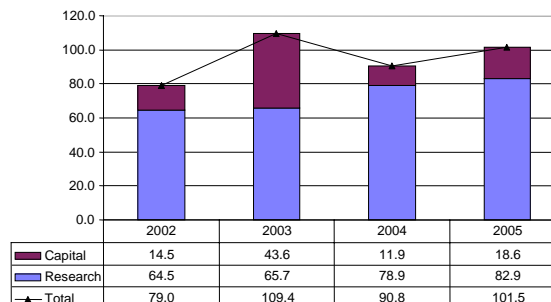
The Research and Trust Fund:

This fund reports contributions made primarily by outside organizations in the form of **restricted** research contracts and grants. Although reported as one fund on the financial statements (refer to Schedule 1 on page 35), the Research and Trust Fund consists of about 5,000 individual accounts that record both revenues and expenses for each grant, contract or special purpose. Major sources of funding include federal research grants such as those from NSERC, SSHRC and CIHR (Canadian Institute of Health Research) and contracts from industry for sponsored-research projects. In fiscal 2005, the University continued to receive significant funding of approximately \$16.0 million (\$19.1 million in 2004) under the CFI/OIT/ORDCF programs (ORDCF-Ontario Research and Development Challenge Fund).

It is important to note that this fund records only a portion of the estimated total University research activity of \$124.0 million in fiscal 2005 (\$121.3 million in 2004). Approximately \$33.0 million of this research activity in 2005 was funded as part of the OMAF contract and is reported in the Operating Fund in these statements.

- Revenues recognized in the financial statements in this fund increased by \$12.4 million or 17% to \$85.4 million (\$73.0 million in 2004), reflecting the increased level of research activity. (Note: Because research receipts are mainly restricted by the contributor, they are not recognized as revenue until spent, in accordance with CICA rules for financial statement reporting.) On a purely cash flow basis, research receipts, excluding the OMAF contract and funds designated for capital, totaled \$82.9 million (refer to Graph L). This represents a 5% increase from the previous year when \$78.9 million in research operating grants and contract funding was received.
- Expenditures in this fund increased in proportion to revenues reflecting the restricted nature of these revenues. Additional major expenditures in this fund included scholarships and bursaries of \$10.7 million (\$10.5 million in fiscal 2004) funded from grants, annual donations and endowment investment income transferred to this fund from endowments for disbursement.

Contracts and Grants Received for Capital and Research*



* Note: "research" in the above chart excludes \$8.1 million in capital-related research receipts recorded under "capital" and approximately \$33.0 million in research funding received under the contract with OMAF in the Operating Fund. Total research-related funding received in fiscal 2005 was \$124.0 million.

The Ancillary Enterprises Fund:

The Ancillary Enterprises Fund with revenues of \$61.4 million or 12% of total University revenues (2004 revenues of \$63.0 million) reports financial results of University activities not related to academic and direct-support functions reported in the Operating Fund. Ancillary units are responsible for any net operating shortfalls, capital amortization costs, interest costs and all other support costs incurred in their operations. Individual annual budgets are prepared and approved for each of these operations. Results by unit are detailed in Schedule 2 on page 36 of the annual audited financial statements.

In comparison to 2004, **total revenues** in the Ancillary Fund decreased by \$1.6 million to \$61.4 million. Student Housing revenues decreased in 2005 by \$0.5 million (\$1.7 million increase in 2004) as a result of the decline in first-year students following the 2004 "double cohort" when additional special accommodations were added to increase the number of students in residence. Revenues in Hospitality Services decreased by \$1.3 million (\$4.0-million increase in 2004), due again to the decrease in first-year students and also a decline in conference contracts (2004 experienced a better-than-average summer conference season). Other Ancillary Fund operations reported a increase in revenue of \$0.2 million. Ancillary **total expenses** decreased by 1.7% or \$1.0 million over 2004. This decrease was mainly in Hospitality and Student Housing, proportionate to their decline in revenues and offset by a small increase in the other Ancillary Fund

University of Guelph
SUMMARY OF FINANCIAL RESULTS
 For the fiscal year May 1, 2004 to April 30, 2005

expenses. Net income in all ancillary units was positive with the exception of the University Centre, which had a small loss of \$0.15 million.

The Operating Fund:

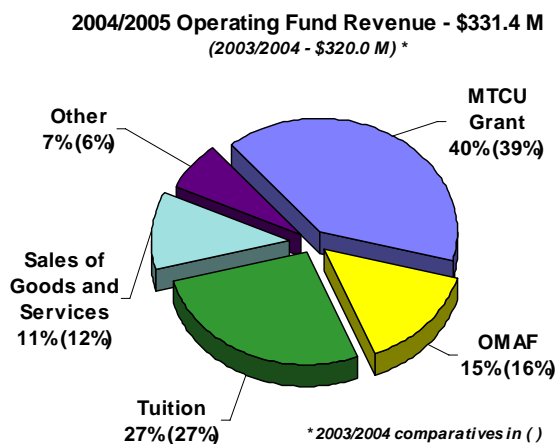
The Operating Fund records the revenues and expenses for most of the University's day-to-day academic and institutional infrastructure activities. It is the largest fund, with approximately 66% of total University revenues (refer to Schedule 1, page 35, for details of Operating Fund revenues and expenses).

Operating Fund Revenues: (total 2005 revenues of \$331.4 million, refer to Graph M) Operating grants from MTCU, funds received under the agreement with OMAF and tuition, both credit and non-credit revenues, provide the three largest components of revenue in this fund. Together they account for 40%, 15% and 27%, respectively, of total Operating Fund revenues. Remaining revenues of 18% are from miscellaneous fees, sales of goods and services raised by a variety of academic and service units, investment income and general external cost-recoveries.

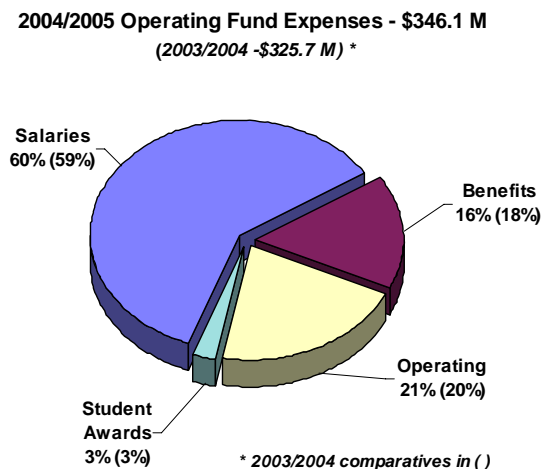
from teaching, research and laboratory test operations) of total Operating Fund revenues. Under the terms of the agreement, OMAF revenues and expenses are treated as a separate restricted account within the Operating Fund and must be fiscally balanced. It therefore has no direct financial impact on the net income of the Operating Fund. For detailed results of the OMAF agreement see Schedule 3 on page 37 of the annual audited financial statements.

Operating Fund Expenses: (total of \$346.1 million, refer to Graph N) Salaries and benefits compose 76.5% of total Operating Fund expenses (76.3% in fiscal 2004). Salaries increased by 9.3% or \$17.8 million. \$11.3 million of this increase was attributable to one-time payments to former employees for restructuring purposes. The remaining 3.4% increase or \$6.5 million was due mainly to negotiated settlements with employee groups, and to a lesser extent, an increase in the number of teaching and support staff needed to deal with increased enrolment. Net benefit expenses in 2005 decreased by 2.4% or \$1.4 million reflecting the relative decline in accrued post-employment costs. Overall, benefit costs incurred by the University for non-post-employment benefits increased by 2.5%.

Graph M



Graph N



OMAF Agreement: Included in the Operating Fund is OMAF agreement activity (2005 total expenses of \$74.4 million). The OMAF agreement under which the University delivers research, education and laboratory testing programs, is unique in the Ontario university system. The University of Guelph and OMAF renewed the agreement for five years on April 1, 2002. Fiscal 2005 OMAF-agreement-related expenses were funded from provincial transfers of \$49.5 and related non-provincial revenues from the sale of goods and services and diploma and training enrolments of \$24.9 million. In total, the OMAF contract generates 22% (15% from provincial funds and 7% earned from sales and fees

Operating expenses within the Operating Fund increased by \$6.4 million or 9.7%, with utility costs accounting for \$3.0 million of this increase. Specifically, fuel costs increased by \$1.6 million due to both the addition of new square footage (mainly the science complex Phase 1) and a colder than average winter in fiscal 2005. The increase in hydro usage resulting from the occupation of the new science complex in the fall of 2004 contributed significantly to the \$1.4-million increase in hydro costs. Maintenance costs for buildings, vehicles and equipment increased by \$0.9 million, due in part, to the significant capital

University of Guelph
SUMMARY OF FINANCIAL RESULTS
For the fiscal year May 1, 2004 to April 30, 2005

expansions in the past few years and the increasing age of other facilities. Remaining operating expenses increased by 3.5%, reflecting a general increase in the purchase of supplies, services and equipment.

Operating Fund - Fund Balances: Operating Fund balances (appropriated and unappropriated) record the fund's accumulated net financial results. In fiscal 2005, the Operating Fund experienced a \$26.7-million net decrease in fund balances (\$16.7 million in fiscal 2004). Included in this result was a transfer of \$12.0 million (\$11.0 million in fiscal 2004) made from the Operating Fund to the Capital and Research and Trust Funds for expenses such as new-faculty start-up funds, teaching equipment and deferred maintenance. These transfers reflect the implementation of planning for new enrolments. In addition to the \$26.7-million net expense, \$1.8 million was transferred to appropriations (previous year's accumulated funds). The transfer consisted of:

- \$2.9 million was transferred to appropriations for the Equipment and Supplies funds. This appropriation stands at \$15.3 million at the end of fiscal 2005. (A portion of these funds will be carried into fiscal 2006 to assist in meeting the overall target approved in the University's 2005/2006 budget).
- \$1.1 million was used to fund a portion of the costs of post-employment benefits. This appropriation has now been reduced to \$-nil.⁸

Total **Operating Fund** appropriations at the end of fiscal 2005 hold a balance of \$21.9 million (refer to Statement 3 on page 16).

Unappropriated Operating Fund Balances:

After adjustments to appropriations, the Operating Fund unappropriated deficit has increased to \$31.4 million (\$2.9 million deficit in 2004). The unappropriated deficit consists of the following:

- \$18.1 million in unappropriated deficit represents the accounting accrual of pension and other post-employment benefits. This amount is the difference between benefit expenses funded through the University's annual budget process (which is based on long term "normal costs") and accounting expenses which can be relatively volatile depending on market conditions.
- \$9.4 million in unappropriated deficit relates to costs incurred from the 2004/2005 and 2005/2006 Voluntary Early Retirement Programs. These costs were approved by the Board of Governors as part of a multi-year restructuring program using incentives and voluntary departures to reduce the number of personnel in certain program areas. This deficit will be repaid starting in 2005/2006 at a rate of no less than \$2.0 million per year and may not exceed \$10.0 million in accumulated costs.
- \$4.0 million in unappropriated deficit is the University's share of the net costs of the University of Guelph-Humber joint venture (refer to note 9 on page 28). This net cost is attributable to start-up costs for the new programs. The University plans to recover these costs in future years from the net revenues of Guelph-Humber programs.

⁸ (Note: In the years immediately preceding fiscal 2003, large non-cash accounting credits were recorded mainly as the result of high market values of pension plan assets. The University followed the practice of appropriating the difference between accounting and budgeted costs of post-employment benefits until such time as market conditions returned to "normal" or closer to long-term assumptions. Starting in fiscal 2003, market conditions led to the recording of large non-cash expenses rapidly consuming the appropriation of prior years. The cumulative amount of all non-cash expenses has now surpassed prior years' non-cash cumulative appropriated credits, leading to the recording of an \$18.1-million accrued post-employment deficit balance (refer to the section on Unappropriated Operating Fund Balances).

University of Guelph
SUMMARY OF FINANCIAL RESULTS
 For the fiscal year May 1, 2004 to April 30, 2005

Summary, all University Funds – Fund Balances:

Total University income received in fiscal 2005 from all funds was \$499.7 million (\$476.5 million in fiscal 2004). Total expenses were \$516.9 million (\$491.1 million in fiscal 2004). The net of revenues less expenses was a deficit of \$17.2 million (\$14.6 million net deficit in 2004). In order to complete the total calculation of changes in fund balances, the \$13.3-million contribution to endowments was added. The resulting \$3.9-million net decrease in funds was allocated in accordance with external restrictions, Board policy, and future budget and expenditure requirements.

The following notes and table summarize the distribution of changes to fund balances based on fiscal 2005 financial results:

- Invested in Capital Assets – an increase of \$7.4 million (2004, increase of \$3.6 million) records the net change in the University's equity in its capital assets. This account increased as a result of an increase in net book value of capital assets (acquisitions greater than amortization) and the reduction in debt on the University's capital assets (which increases our equity).
- Endowed Funds – an increase of \$12.9 million (2004, \$19.5 million increase) records the net change in endowments due to \$14.8 million in new donations, contributions and capitalized interest, plus \$1.8 million in net proceeds from real estate proceeds less \$3.7 million in the reclassification of the Cutten endowment to capital assets. (Note: The Endowed Fund Balance of \$137.1 million is that portion of endowed investments of \$149.7 million designated for initial donated capital, plus accumulated investment earnings allocated for inflation protection and growth. The balance of investments have been either designated for spending in accordance with Board policies or have been advanced to the endowment fund for investment purposes only.)
- Appropriations – records net funds committed or used for specific purposes such as outstanding purchase commitments, departmental funds, research, capital replacement expenses and stabilization funds (refer to Statement 3 on page 16). In total, the University's appropriations increased by \$4.4 million (\$19.9 million decrease in 2004).
- Unappropriated Funds – reports the accumulated net income or deficit of University operations after appropriations under University policy and restrictions. In total, the University's unappropriated funds decreased by \$28.6 million. The Operating Fund deficit accounted for \$28.5 million of this decrease,

consisting of an \$18.1-million deficit from the accounting accrual (non-cash expense) of post-employment benefits, a deficit of \$9.4 million from employee restructuring programs, and an increase in the deficit of \$1.0 million from the new University of Guelph-Humber program. In addition, unappropriated funds decreased by \$0.1 million from the combined ancillary unit operations.

The following table summarizes total University financial results for the fiscal year ended April 30, 2005:

2004/2005 UNIVERSITY RESULTS
Summary of All Funds
 (\$millions)

	<u>Opening</u> <u>Fund</u> <u>Balances</u>	<u>2004/</u> <u>2005</u> <u>Results</u>	<u>Closing</u> <u>Fund</u> <u>Balances</u>
Total University Revenues		499.7	
Total University Expenses		516.9	
Revenues Less Expenses		<u>(17.2)</u>	
Add: Endowment Contributions: <i>recorded as a direct increase(decrease) in</i> <i>Fund Balance.</i>		13.3	
Equals: Increase (decrease) in Fund Balances		<u>(3.9)</u>	
UNIVERSITY FUND BALANCES:			
Invested In Capital Assets	68.6	7.4	76.0
Endowed Funds	124.2	12.9	137.1
Appropriated (all funds)	54.2	4.4	58.6
Unappropriated- Ancillaries	4.3	(0.1)	4.2
Unappropriated- Operating Fund	(2.9)	(28.5)	(31.4)
Total Fund Balances	<u>248.4</u>	<u>(3.9)</u>	<u>244.5</u>

June 30, 2005

Auditors' Report

To the Governors of the University of Guelph

We have audited the statement of financial position of the **University of Guelph** as at April 30, 2005 and the statements of operations and changes in fund balances (unappropriated, endowed, and invested in capital assets), changes in appropriated expendable fund balances and cash flows for the year then ended. These financial statements are the responsibility of the management of the University of Guelph. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the University of Guelph as at April 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

UNIVERSITY OF GUELPH
STATEMENT OF FINANCIAL POSITION
AS AT APRIL 30, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Current		
Cash and Short Term Investments	50,867	48,825
Accounts Receivable	21,950	23,158
Inventories	3,191	3,659
Mortgage Receivable	2,000	
Prepaid Expenses	1,608	728
	<u>79,616</u>	<u>76,370</u>
Long-term		
Deferred Pension Costs (Note 12)	55,960	58,888
Real Estate Projects in Progress	741	5,502
Long Term Receivables	288	2,312
Deferred Charge (Note 14)	863	887
Investments (Note 3)	262,617	287,221
	<u>320,469</u>	<u>354,810</u>
Capital Assets (Note 6)	456,624	409,421
	<u>856,709</u>	<u>840,601</u>
<u>LIABILITIES</u>		
Current		
Accounts Payable and Accrued Charges	44,325	51,322
Current Portion of Long-term Debt (Note 7)	2,572	3,458
Current Portion of Deferred Revenue and Contributions (Note 8)	12,073	12,307
	<u>58,970</u>	<u>67,087</u>
Employee Future Benefits (Note 12)	53,524	37,655
Long-term Debt (Note 7)	158,625	161,206
Deferred Revenue and Contributions (Note 8)	341,103	326,288
	<u>612,222</u>	<u>592,236</u>
<u>FUND BALANCES</u>		
Invested in Capital Assets	75,962	68,619
Endowed (Note 10)	137,098	124,206
Appropriated (Statement 3)	58,643	54,152
Unappropriated Surplus (Deficit) (Note 9)	(27,216)	1,388
	<u>244,487</u>	<u>248,365</u>
	<u>856,709</u>	<u>840,601</u>

D. Derry

Chair

A. Summerlee

President

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
(UNAPPROPRIATED, ENDOWED AND INVESTED IN CAPITAL ASSETS)
FOR THE YEAR ENDED APRIL 30, 2005

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
REVENUE		
Ministry of Training, Colleges and Universities	134,983	126,387
Ministry of Agriculture and Food (Schedule 3)	49,541	50,401
Tuition (Credit and Non-Credit)	88,805	86,816
Donations (Note 13)	5,153	4,054
Sales of Goods and Services	97,326	99,786
Investment Income (Note 4)	11,654	11,077
Other Grants and Contracts	75,830	65,241
Amortization of Deferred Capital Contributions (Note 8)	16,977	16,667
Other	19,470	16,058
	<u>499,739</u>	<u>476,487</u>
EXPENSES		
Salaries	255,422	234,878
Benefits	62,329	63,035
Travel	12,119	11,680
Operating	119,775	113,541
Minor Renovations and Repairs	3,994	4,043
Interest	10,686	10,807
Scholarships and Bursaries	19,425	21,684
Capital Asset Amortization	33,143	31,416
	<u>516,893</u>	<u>491,084</u>
Revenue Less Expenses	(17,154)	(14,597)
Endowment Contributions (Note 10)	<u>13,276</u>	<u>18,644</u>
Increase (Decrease) in Fund Balance	(3,878)	4,047
Transfer (To) From Appropriations (Statement 3)	<u>(4,491)</u>	<u>19,903</u>
Net Increase (Decrease) in Fund Balances	(8,369)	23,950
Fund Balances, Beginning of Year		
Unappropriated, Endowed and Invested in Capital Assets	<u>194,213</u>	<u>170,263</u>
Fund Balances, End of Year		
Unappropriated, Endowed and Invested in Capital Assets (Schedule 1)	<u>185,844</u>	<u>194,213</u>

UNIVERSITY OF GUELPH
STATEMENT OF CHANGES IN APPROPRIATED
EXPENDABLE FUND BALANCES
FOR THE YEAR ENDED APRIL 30, 2005

(in thousands of dollars)

OPERATING FUND	Balance, Beginning of Year	Transfer To (From) Appropriations	Balance, End of Year
Equipment and Supplies	12,463	2,860	15,323
Self Insured Losses	550		550
Pension and Benefits	1,064	(1,064)	0
Stabilization Fund	6,000		6,000
	<u>20,077</u>	<u>1,796</u>	<u>21,873</u>
 CAPITAL FUND			
Capital Projects and Renovations	5,224	(675)	4,549
Minor Renovations	2,334	(198)	2,136
	<u>7,558</u>	<u>(873)</u>	<u>6,685</u>
 ANCILLARY ENTERPRISES			
Real Estate Division	2,098	20	2,118
Student Housing Services	500		500
Hospitality Services		209	209
University Centre	206	4	210
	<u>2,804</u>	<u>233</u>	<u>3,037</u>
 RESEARCH AND TRUST FUND			
Research and Trust	23,713	3,335	27,048
 TOTAL	 <u>54,152</u>	 <u>4,491</u>	 <u>58,643</u>

**UNIVERSITY OF GUELPH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 2005**

(in thousands of dollars)

	<u>2005</u>	<u>2004</u>
OPERATING ACTIVITIES		
Increase (Decrease) in Fund Balance (Statement 2)	(3,878)	4,047
Add (Deduct) Non-Cash Items:		
Capital Asset Amortization (Statement 2)	33,143	31,416
Amortization of Deferred Capital Contributions (Statement 2)	(16,977)	(16,667)
Change in Unrealized Gain on Investments	(8,612)	(19,488)
(Increase) Decrease in Long Term Receivables	24	(312)
(Increase) Decrease in Deferred Pension Costs	2,928	(426)
Increase in Employee Future Benefits	15,869	11,511
(Increase) Decrease in Non-cash Working Capital	(1,440)	11,188
	<u>21,057</u>	<u>21,269</u>
FINANCING ACTIVITIES		
Decrease in Deferred Charges	24	23
Repayment of Long-term Debt	(3,467)	(3,301)
Deferred Capital Contributions Received During the Year	23,375	23,066
Increase in Deferred Contributions	8,183	4,170
	<u>28,115</u>	<u>23,958</u>
INVESTING ACTIVITIES		
Disposal of Investments	33,216	26,665
Acquisition of Capital Assets	(80,346)	(88,308)
	<u>(47,130)</u>	<u>(61,643)</u>
Change in Cash and Short Term Investments	2,042	(16,416)
CASH AND SHORT TERM INVESTMENTS, BEGINNING OF THE YEAR	<u>48,825</u>	<u>65,241</u>
CASH AND SHORT TERM INVESTMENTS, END OF THE YEAR (Statement 1)	<u><u>50,867</u></u>	<u><u>48,825</u></u>

UNIVERSITY OF GUELPH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2005
(in thousands of dollars)

1. AUTHORITY AND PURPOSE

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with generally accepted accounting principles, applied consistently within the framework of the accounting policies summarized below:

(a) Fund Accounting

The accounts of the University are maintained in accordance with the principles of fund accounting in order to observe the limitations and restrictions placed on the use of available resources. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into separate funds in accordance with specified activities or objectives. For financial reporting purposes, the University has combined funds with similar characteristics into five major fund groups:

- i. The Operating Fund presents the academic, administrative and other operating activities of the University.
- ii. The Capital Fund presents the funds received and expended on property, plant and equipment except capital expenditures related to ancillary operations.
- iii. The Ancillary Enterprises Fund presents the operations of services carried on by the University that are supportive of but not directly related to the University's primary functions of teaching and research. Any deficits incurred are recoverable from each ancillary's future operations. The Ancillary Enterprises Fund includes the following:

Hospitality Services
Parking Services
Real Estate Division
Student Housing Services
University Centre

- iv. The Research and Trust Fund includes those funds provided by benefactors and external contracts, the expenditure of which is restricted to a specific purpose. Also included is that portion of investment income on endowments which has been made available for expenses under University Policy.
- v. The Endowment Fund records donations provided by benefactors or funds designated by the Board, which are restricted as to purpose and expendability. Only the accumulated investment income earned on these funds, after having provided for inflation protection and, in specific cases, growth may be expended for the designated purpose. The endowment capital remains intact. Endowment earnings available for expenditure are recorded in the Research and Trust Fund.

The Endowment Fund consists of two major groups of investments each with different spending objectives: the Heritage Fund and the General Endowment Fund.

The Heritage Fund was created in 1991 by a declaration of trust of the Board of Governors with the sole intention that the capital of the Fund will be held in perpetuity for University strategic purposes. The main sources of growth for the Fund are proceeds of University real estate sales and leases from designated properties and investment income earned on the capital of the Fund.

UNIVERSITY OF GUELPH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2005
(in thousands of dollars)

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

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

(b) Investments

The University reports its investments at market value with the exception of the capital fund and ancillary enterprises investments which are recorded at book value whereby the investments are initially recorded at cost and the earnings from such investments are recognized only to the extent received or receivable.

(c) Related Entity

With the approval of the Ontario Ministry of Training, Colleges and Universities, the University of Guelph and The Humber College Institute of Technology and Advanced Learning entered into a Memorandum of Understanding dated June 10, 1999, to develop and deliver joint programming as the University of Guelph-Humber (the Joint Venture). Under the Joint Venture, the University is represented on the Executive Committee of the Joint Venture. The Joint Venture has not been consolidated in the University financial statements, however the University recognizes 50% of the total net operating results in the Statement of Operations and Changes in Fund Balances of the Joint Venture.

(d) Financial Instruments

Accounts receivables are recorded at estimated net realizable value, which approximates fair value. Accounts payable and long-term debt are recorded at their cost amounts, which approximates fair value.

(e) Inventory Valuation

Inventories are recorded at the lower of cost and market.

(f) Capital Assets

Capital assets are recorded at cost less accumulated amortization, except for the donated assets which are recorded at appraised values with the exception of art, rare books and artifacts. These are recorded at a nominal value of \$1,000 and are not amortized.

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

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

(g) Leases Payable

The University has entered into certain equipment and building leases for which title to the related assets will vest in the University on the termination of the leases. The cost of these assets is reflected in capital assets and the present value of the lease commitments is reflected as a liability.

UNIVERSITY OF GUELPH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2005
(in thousands of dollars)

(h) Appropriations of Fund Balances

Appropriations are restrictions of fund balances designated for: future purchase order commitments; capital and renovation projects committed but not completed; unspent organizational unit funds permitted to be carried forward at the end of each year for expenditure in the following year; and contingencies in such amounts as are deemed necessary by the Board.

(i) Recognition of Revenue

The University accounts for restricted contributions in accordance with the deferral method.

Externally restricted contributions received for:

- purposes other than endowment or the acquisition of capital assets are deferred and recognized as revenue in the year in which the related expenses are incurred.
- the acquisition of capital assets having limited life are initially recorded as deferred contributions in the period in which they are received. They are recognized as revenue over the useful life of the related assets.
- the acquisition of unlimited life assets such as land and collections are recognized as direct increases in net assets in the period in which they are received.

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

Unrestricted contributions are recognized as revenue when received.

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

(j) Employee Future Benefits

The University maintains three defined benefit pension plans for its employees: Professional Plan, Retirement Plan and Non-Professional Plan. Pension plan assets, liabilities and changes in net assets are reported in the respective financial statements of these plans. The assets of the plans are held by an independent custodian and are not recorded in the accounts of the University.

Additionally, the University provides extended health care and dental benefits to retirees and their eligible dependents on a cost-sharing basis.

The cost of the pension and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and other actuarial factors. Future plan obligations are discounted using current market interest rates.

As allowed under generally accepted accounting principles, the University has exercised a three-month accelerated measurement date for financial reporting purposes. Accordingly, January 31 of each year is the measurement date used for determining the benefit obligation and value of plan assets.

For the purpose of calculating the expected return of plan assets, the assets are valued at fair value. Actuarial gains (losses) arise from actual experience differing from expected or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the

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average remaining service period of the active employees (or, if applicable, the average remaining life expectancy of the former employees). Past service costs arising from plan amendments are amortized over the average remaining service period of employees active at the date of amendment.

On May 1, 2000, the University adopted the new accounting standard on employee future benefits using the prospective application method. The University is amortizing the resulting transitional asset/obligation over the average remaining service period of employees expected to receive benefits under the benefit plans as of May 1, 2000. (refer to Note 12)

(k) Real Estate Projects

The Real Estate Division is included in the ancillary enterprises fund. The Real Estate Division was established to develop certain real estate properties owned by the University and designated as Heritage Fund properties.

Real Estate projects in progress are carried at the lower of total cost and estimated net realizable value.

Costs, including capitalized interest (2005 \$18; 2004 \$220) of projects not yet completed are deferred and recorded as "Real Estate Projects in Progress" on the Statement of Financial Position. It is anticipated that these project costs will be recovered from future Real Estate Division revenues.

3. INVESTMENTS

	Book Value		Market Value	
	2005	2004	2005	2004
Short Term Notes and Bonds	97,718	133,535	98,019	133,792
Investments Held for Debt Repayment	6,365	5,478	7,317	6,306
Research & Trust Fund				
OMAF Post Retirement	2,277	2,438	4,019	3,952
OMAF Early Retirement	2,715	2,953	4,802	4,793
Total Research & Trust Fund	4,992	5,391	8,821	8,745
General and Heritage Endowment Funds				
Cash and Short Term Notes	13,508	5,188	13,508	5,188
Canadian Equities	24,670	22,895	38,053	29,682
Canadian Pooled Equity	2,016	1,573	2,479	1,911
Canadian Fixed Income	35,481	35,002	37,291	36,284
Foreign Equities	50,393	47,751	46,527	44,147
Foreign Pooled Equity	10,585	18,476	11,855	18,596
Cutten Club		3,655		3,655
	136,653	134,540	149,713	139,463
Total Investments	245,728	278,944	263,870	288,306

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

Investments

	2005	2004
Short Term Notes and Bonds (Book)	97,718	133,535
Investments Held for Debt Repayment (Book)	6,365	5,478
Research & Trust Fund (Market)	8,821	8,745
General and Heritage Endowment Funds (Market)	149,713	139,463
	262,617	287,221

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3. INVESTMENTS, continued

Pooled investments held by the General and Heritage Endowment Funds refer to the value of units held in externally managed investment funds specializing in equities, fixed income and international investments.

In April 1997, as part of the enhanced partnership agreement with OMAF, the University received funds which may only be used to cover the post retirement and early retirement benefit costs related to past service for former Ministry employees, now employed by the University. The OMAF Post Retirement and the OMAF Early Retirement Funds are invested in a diversified pooled fund of Canadian equities, bonds, foreign equities and cash investments.

The assets of the General and Heritage Endowment Funds have been pooled for investment purposes. Each fund's interest in the pooled investments is calculated based on the units held by each fund in the investment pool using market values. The respective values of the assets of the General and Heritage Endowment Funds, based on the number of units held by each fund, are as follows:

	<u>Book Value</u>		<u>Market Value</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
General Endowment	96,643	95,310	104,747	97,863
Heritage Fund	40,010	39,230	44,966	41,600
	<u>136,653</u>	<u>134,540</u>	<u>149,713</u>	<u>139,463</u>

4. INVESTMENT INCOME

Investment income is earned from operations and endowments. The income from endowments is recorded in operations as the income becomes available for expenditure in accordance with the University's endowment spending policy.

Investment Income	<u>Operations</u>	<u>Endowment</u>	<u>Total</u>	<u>Total</u>
			<u>2005</u>	<u>2004</u>
Net Realized Investment Income	5,550	1,343	6,893	9,465
Increase in Unrealized Investment Income	391	8,137	8,528	19,511
Total Investment Income	<u>5,941</u>	<u>9,480</u>	<u>15,421</u>	<u>28,976</u>
Increase in Accumulated Endowed Investment Income		(4,394)	(4,394)	(15,170)
Investment Income Available for Expenditure	5,086	(5,086)	-	-
Net (Increase) Decrease in Deferred Contributions	627		627	(2,729)
Total	<u>11,654</u>	<u>-</u>	<u>11,654</u>	<u>11,077</u>

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5. RELATED ENTITIES

a) GUELPH GOLF & RECREATION CLUB LIMITED (CUTTEN CLUB)

The Guelph Golf & Recreation Club Limited (Cutten Club) was wholly owned by the University. As of March 31, 2005, the Guelph Golf & Recreation Club Limited (Cutten Club) discontinued operations. The land, buildings and equipment were donated to the University, and a new arms length legal entity operated and controlled by the members was established. The University has entered into a lease arrangement with the new entity, whereby the University leases the assets to the new entity.

To reflect this transaction, the University's existing Cutten Club investment of \$3,655, previously recorded in the Endowment Fund, is now recorded in the Capital Fund as land, land improvements, buildings, and furniture and equipment. The related endowment fund balance has been transferred to the Capital Fund as an investment in capital assets.

As part of the Cutten Club agreement, the University will guarantee a loan of up to \$2,500 for the new legal entity. As of April 30, 2005 there was no actual loan amount outstanding.

b) JOINT VENTURE, UNIVERSITY OF GUELPH-HUMBER

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

As part of its participation in the Joint Venture, the University also provides certain services including academic administration, student recruitment and admissions, curriculum development and student aid and course delivery. The University has advanced funds equal to the cost of these services to the Joint Venture. At April 30, 2005, there is a total advance of \$5,751 (2004 \$6,435) representing the cumulative amount of all services provided by the University, relating to the Joint Venture, since the inception of the program. The University expects to collect on these advanced funds when the Joint Venture begins to recover its cumulative deficit currently expected to begin in fiscal 2006/2007.

The Joint Venture has not been consolidated in the University financial statements however the University recognized 50% of the total net deficit of the Joint Venture as a cost. Separately audited financial statements are prepared for the Joint Venture (year-ended March 31, 2005). The total cumulative deficit recorded as a cost to the University is \$3,982 (2004 \$2,943). The University expects to recover this cost from future Joint Venture net revenues.

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6. CAPITAL ASSETS

a) Details	2005		2004	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	8,241		8,241	6,473
Land improvements	23,393	7,812	15,581	9,433
Buildings	469,934	181,016	288,918	232,970
Furniture and equipment	191,876	109,373	82,503	79,921
Construction in progress	44,355		44,355	70,874
Computer equipment	34,708	21,632	13,076	5,459
Library and art collection	27,566	23,616	3,950	4,291
	<u>800,073</u>	<u>343,449</u>	<u>456,624</u>	<u>409,421</u>

b) Change in Net Book Value

	2005	2004
Balance, beginning	409,421	352,529
Purchase of capital assets	80,346	88,308
Less: Amortization of capital assets	(33,143)	(31,416)
Balance, ending	<u>456,624</u>	<u>409,421</u>

c) Insured Values

	2005	2005	2004	2004
	Net Book Value	Insured Value	Net Book Value	Insured Value
Buildings	<u>288,918</u>	<u>1,044,000</u>	<u>232,970</u>	<u>951,299</u>
Furniture, equipment and library books	<u>99,529</u>	<u>826,597</u>	<u>89,671</u>	<u>803,723</u>
Art and artifacts collection	<u>1</u>	<u>11,729</u>	<u>1</u>	<u>11,729</u>

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7. a) LONG-TERM DEBT

	Interest Rate %	Issue Date	Due Date	<u>2005</u> Total	<u>2004</u> Total
Series A Unsecured Debenture	6.24	11-Oct-02	10-Oct-42	<u>100,000</u>	<u>100,000</u>
Banker's Acceptance					
Canadian Imperial Bank of Commerce	7.88	1-May-96	1-May-06	4,221	4,893
Canadian Imperial Bank of Commerce	5.89	6-Jul-98	6-Jul-07	2,404	3,379
Bank of Montreal	7.01	16-Oct-00	16-Jun-25	<u>32,600</u>	<u>33,000</u>
				<u>39,225</u>	<u>41,272</u>
Leases payable					
Ontario Student Housing Corp.	6.13	1-Jan-69	1-Dec-18	697	729
Canada Mortgage and Housing Corp.	5.88	1-Jan-69	1-Dec-18	6,159	6,436
Hewlett-Packard	6.3	1-Sep-00	31-Aug-04	0	1,064
				<u>6,856</u>	<u>8,229</u>
Mortgages payable					
Canada Mortgage and Housing Corp.	5.38	1-Jan-67	1-Dec-16	811	858
Ontario Housing Corp.(interest only)	10.36	1-Oct-90	1-Apr-10	1,225	1,225
Ontario Housing Corp.(interest only)	9.86	1-Dec-92	1-Jun-11	<u>13,080</u>	<u>13,080</u>
				<u>15,116</u>	<u>15,163</u>
				161,197	164,664
Current Portion				<u>(2,572)</u>	<u>(3,458)</u>
				<u>158,625</u>	<u>161,206</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	2,572	10,769	13,341
2007	5,549	10,428	15,977
2008	1,214	10,275	11,489
2009	947	10,188	11,135
2010	2,198	10,127	12,325
	<u>12,480</u>	<u>51,787</u>	<u>64,267</u>
Thereafter	<u>148,717</u>		
	<u>161,197</u>		

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7. b) SERIES A UNSECURED DEBENTURE

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

7. c) INTEREST RATE RISK

The University entered into interest rate exchange (swap) contracts with the Bank of Montreal and Canadian Imperial Bank of Commerce in order to convert variable-rate borrowings to fixed rates, thereby reducing interest rate risk associated with its outstanding debt. The interest rate swap contract involves an exchange of floating rate to fixed rate interest payments between the University and the financial institutions. Under the terms of these agreements, the University pays a fixed rate and receives a variable rate on each swap's notional principal amount. The swap transactions are completely independent and have no direct effect on the relationship between the University and its lenders.

During the fiscal year, the University entered into a future dated interest rate exchange (swap) contract with the Canadian Imperial Bank of Commerce. The start date of this new contract is May 1, 2006.

The notional amount of the interest rate swap and the net unrealized gain (loss) on these contracts outstanding at April 30, 2005 are:

	<u>Due Date</u>	<u>Notional Amount</u>	<u>Gain/(Loss)</u>
Canadian Imperial Bank of Commerce	1-May-06	4,167	(227)
Canadian Imperial Bank of Commerce	6-Jul-07	2,401	(72)
Canadian Imperial Bank of Commerce	2-May-16	6,000	(88)
Bank of Montreal	16-Jun-25	32,538	(6,925)

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8. DEFERRED REVENUE, CONTRIBUTIONS AND CAPITAL CONTRIBUTIONS

	<u>Total 2005</u>	<u>Total 2004</u>
a) Deferred Revenue		
Prepaid Leases, Fees and Grants	11,320	10,779
OMAF Advance	10,011	9,053
Other	817	1,959
	<u>22,148</u>	<u>21,791</u>
Less: Current Deferred Revenue	<u>(12,073)</u>	<u>(12,307)</u>
	<u>10,075</u>	<u>9,484</u>
b) Deferred Contributions		
Changes in Deferred Contributions are as follows:		
Balance, beginning of year	55,944	48,744
Contributions received during the year	107,174	102,393
Contributions recognized in the year	<u>(99,348)</u>	<u>(95,193)</u>
Balance, end of year	<u>63,770</u>	<u>55,944</u>
c) Deferred Capital Contributions		
Changes in Deferred Capital Contributions are as follows:		
Balance, beginning of year	260,860	254,461
Contributions received during the year	23,375	23,066
Amortization of deferred capital contributions	<u>(16,977)</u>	<u>(16,667)</u>
Balance, end of year	<u>267,258</u>	<u>260,860</u>
Total Deferred Revenue, Contributions and Capital Contributions	<u>341,103</u>	<u>326,288</u>

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9. UNAPPROPRIATED FUND BALANCE (Schedule 1)

	2005	2004
Operating Fund		
Accrual for Employee Future Benefits	(18,068)	-
Voluntary Early Retirement Programs:		
2004/2005 Program	(5,974)	-
2005/2006 Program	(3,404)	-
	(9,378)	
University of Guelph-Humber (Note 5 (b))	(3,982)	(2,943)
	(31,428)	(2,943)
Ancillary Enterprises (Schedule 2)	4,212	4,331
Balance, end of year	(27,216)	1,388

The University's total Unappropriated Fund Balance for the Operating Fund at the end of fiscal 2004/2005 shows a deficit of \$31,428 consisting of:

- **Accrual for Employee Future Benefits:** The University has costs associated with its sponsorship of three pension plans and other post-retirement benefits. These costs are actuarially determined and charged to the University's Statement of Operations. (Refer to Note 12)
- **Voluntary Early Retirement Programs:** As part of a plan to meet 2004/05 and 2005/06 budget targets, the Board of Governors approved one-time deficits incurred as a result of buyout costs for certain University faculty and staff. The 2004/05 program costs incurred are \$5,974 and as at April 30, 2005 costs of the 2005/06 program are \$3,404. The maximum approved deficit under these programs is \$10,000 and the University will repay these costs by no later than 2010/2011 at an annual rate of not less than \$2,000.
- **University of Guelph-Humber:** This deficit is associated with the University's share of the start-up costs of the University's joint venture with The Humber College Institute of Technology and Advanced Learning. It is planned to have these costs recovered from future operations of the joint venture. Repayment is estimated to begin in 2006/2007.

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10. CHANGES IN FUND BALANCE – ENDOWMENTS

Endowment Fund Balances include externally restricted donations received by the University and donations designated by the Board to be endowed for specific purposes. The University endowment policy has the objective of protecting the real spending value of the endowed principal by limiting spending of investment income earned on endowments. The balance of annual investment income is recorded as a direct change to the endowed fund balance.

	Externally Restricted	Board Restricted	Total 2005	Total 2004
Investment income (loss) on endowments	8,263	1,218	9,481	20,090
Less: available for expenditure	(4,275)	(811)	(5,086)	(4,920)
Increase (Decrease) in				
accumulated endowed investment income	3,988	407	4,395	15,170
Contributions received during year	8,443	438	8,881	3,319
Equity adjustment - Cutten Club (Note 5 (a))			0	155
Endowment Contributions	12,431	845	13,276	18,644
Transfers in	3,214	57	3,271	867
Transfer to Capital Fund		(3,655)	(3,655)	
Net Increase (Decrease) in Fund Balance	15,645	(2,753)	12,892	19,511
Balance, beginning of year	103,200	21,006	124,206	104,695
Balance, end of year	118,845	18,253	137,098	124,206

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11. ONTARIO STUDENT OPPORTUNITY TRUST FUND (PHASE I)

The Ontario Student Opportunity Trust Fund (Phase I) program was established by the Government of Ontario to encourage companies and individuals to contribute to funds for Ontario's college and university students. Under this program, donations received from companies and individuals were matched by the province on a dollar for dollar basis. In response to this provincial initiative, the University established the ACCESS Fund within the endowed portfolio. Investment income from the funds will be used for student financial assistance.

The following are the balances of the Ontario Student Opportunity Trust Fund (Phase I) recorded at cost, and the related transactions for the year ended April 30, 2005:

Access Endowment Fund	<u>2005</u>	<u>2004</u>
Opening balance - May 1	21,815	22,498
Net Investment income endowed - realized	(829)	(683)
Closing balance - April 30 *	<u>20,986</u>	<u>21,815</u>
Access Expendable Fund	<u>2005</u>	<u>2004</u>
Opening balance - May 1	2,222	2,305
Investment income available for expenditure	1,011	1,024
Bursaries awarded **	(850)	(1,107)
Closing balance - April 30	<u>2,383</u>	<u>2,222</u>

* Includes original donated capital of \$20,529 (2004 \$20,529) and accumulated realized net preservation of capital of \$457 (2004 \$1,286)

** The total number of bursaries awarded for the year ended April 30, 2005 was 664 (857 in 2004).

The market value of the endowment as at April 30, 2005 was \$20,606 (2004 \$20,139).

This information relates to Phase I of the Ontario Student Opportunity Trust Fund and not Phase II which is separately audited.

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12. EMPLOYEE FUTURE BENEFITS

a) Description of Plans

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

b) Accrued Benefit Obligations and Plan Assets

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

[in thousands of dollars]

	Pension Plans*		Other Benefit Plans	
	2005	2004	2005	2004
Change in Benefit Obligation				
Benefit obligation - beginning of measurement period	726,381	654,317	131,169	92,427
Current service cost (employer)	20,488	15,238	5,070	2,794
Interest cost	42,961	42,912	7,806	6,115
Employee contributions	9,420	8,437	-	-
Past Service Costs	8,893	497	-	-
Actuarial loss	26,630	37,815	11,522	32,167
Benefits paid	(33,186)	(32,835)	(2,761)	(2,334)
Benefit obligation - end of measurement period	<u>801,587</u>	<u>726,381</u>	<u>152,806</u>	<u>131,169</u>
Change in Plan Assets				
Market value of plan assets - beginning of measurement period	671,423	570,791	-	-
Actual return on plan assets, net of expenses	39,470	104,809	-	-
Employer contribution	10,824	20,221	2,761	2,334
Employee contributions	9,420	8,437	-	-
Benefits paid	(33,186)	(32,835)	(2,761)	(2,334)
Market value of plan assets - end of measurement period	<u>697,951</u>	<u>671,423</u>	<u>-</u>	<u>-</u>
Reconciliation of funded status				
Funded status - surplus (deficit)	(103,636)	(54,958)	(152,806)	(131,169)
Estimated employer contributions after measurement date	2,378	2,599	690	592
Unamortized transitional obligation (asset)	(101,980)	(114,577)	42,773	47,051
Unamortized past service costs	23,679	16,636	-	-
Unamortized net actuarial loss	238,011	211,874	53,162	43,607
Accrued benefit asset (liability), before Valuation Allowance	58,452	61,574	(56,181)	(39,919)
Total Valuation Allowance (VA)	(3,018)	(3,246)	-	-
Accrued benefit asset (liability), net of VA	<u>55,434</u>	<u>58,328</u>	<u>(56,181)</u>	<u>(39,919)</u>
Statement of Financial Position				
Deferred pension costs	55,960	58,888	-	-
Accounts payable (employee future benefits - current liability)	(146)	(257)	(3,037)	(2,567)
Employee future benefits (long-term liability)	(380)	(303)	(53,144)	(37,352)
Accrued benefit asset (liability), net of VA	<u>55,434</u>	<u>58,328</u>	<u>(56,181)</u>	<u>(39,919)</u>

*Pension plans include accrued benefit obligations and plan assets in respect of plans that are not fully funded of \$791,709 and \$684,591 respectively (\$716,962 and \$658,272 respectively for 2004).

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12. EMPLOYEE FUTURE BENEFITS (CONTINUED)

c) Net Benefit Plan Costs

[in thousands of dollars]

	<u>Pension Plans</u>		<u>Other Benefit Plans</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Components of cost				
Current service cost (employer)	20,488	15,238	5,070	2,794
Interest cost	42,961	42,912	7,806	6,115
Actual return on assets	(39,470)	(104,809)	-	-
Actuarial (gains) losses	26,630	37,815	11,522	32,167
Past service costs	8,893	497	-	-
Settlements/curtailments	-	68	-	-
Difference between actual and expected return	(10,410)	62,153	-	-
Difference between actual and recognized actuarial gains (losses)	(15,727)	(23,233)	(9,555)	(32,010)
Difference between actual and recognized past service costs in year	(7,043)	1,043	-	-
Amortization of transitional obligation (asset)	(12,597)	(12,591)	4,278	4,278
Amortization of transitional increase in VA	5	5	-	-
Current increase (decrease) in VA	(233)	1,652	-	-
Net benefit cost	<u>13,497</u>	<u>20,750</u>	<u>19,121</u>	<u>13,344</u>

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

d) Cash Payments

Total cash payments for employee future benefits for the 12-months ended January 31, 2005, consisting of cash contributions by the University to the funded pension plans and cash payments directly to beneficiaries for the unfunded other benefit plans, was \$13,585,000 (2004 \$22,555,000).

e) Asset Allocation

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

	<u>2005</u>	<u>2004</u>
Percentage plan assets at January 31		
Equity securities	65.9%	61.7%
Debt Securities	31.9%	36.5%
Cash and short term investments	1.8%	1.4%
Other	0.4%	0.4%
	<u>100.0%</u>	<u>100.0%</u>

f) Actuarial Valuations

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

Registered Pension Plans	September 30, 2003
Other Plans	January 31, 2004

For the University's registered pension plans, the next funding valuation is required to be prepared with an effective date no later than September 30, 2006.

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12. EMPLOYEE FUTURE BENEFITS (CONTINUED)

g) Significant Assumptions

The significant actuarial assumptions adopted are as follows:

	Pension Plans		Other Benefit Plans	
	2005	2004	2005	2004
For determining accrued benefit obligation at end of fiscal period:				
Discount rate	5.65%	5.90%	5.65%	5.90%
Rate of increase in future compensation	3.50%	3.50%	n/a	n/a
Rate of increase in national average wage	3.50%	3.50%	n/a	n/a
Rate of increase in Consumer Price Index (CPI)	3.00%	3.00%	n/a	n/a
For determining benefit cost during fiscal period:				
Discount rate	5.90%	6.60%	5.90%	6.60%
Rate of increase in future compensation	4.00%	4.00%	n/a	n/a
Rate of increase in national average wage	3.50%	4.00%	n/a	n/a
Rate of increase in Consumer Price Index (CPI)	3.00%	3.50%	n/a	n/a
Expected long-term rate of return on plan assets	7.50%	7.50%	n/a	n/a
Assumed health care cost trend rate at end of fiscal period:				
Dental Inflation	n/a	n/a	4.50%	4.50%
Initial health care cost trend rate	n/a	n/a	10.00%	10.00%
Annual rate of decline in health care cost trend rate	n/a	n/a	0.50%	0.50%
Year of initial decline in health care cost trend rate	n/a	n/a	2007	2006
Ultimate health care cost trend rate	n/a	n/a	5.00%	5.00%

h) Sensitivity Analysis

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

[in thousands of dollars]	Pension Plans		Other Benefit Plans	
	Benefit	Net	Benefit	Net
	Obligation	Benefit Cost	Obligation	Benefit Cost
	2005	2006	2005	2006
	Increase (Decrease)		Increase (Decrease)	
Impact of discount rate change:				
1% increase	(101,934)	(12,464)	(25,645)	(3,071)
1% decrease	116,897	13,645	30,816	3,535
Impact of health care cost trend rate change:				
1% increase	n/a	n/a	31,020	5,437
1% decrease	n/a	n/a	(25,824)	(4,375)

UNIVERSITY OF GUELPH
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED APRIL 30, 2005
(in thousands of dollars)

13. DONATIONS

	<u>2005</u>	<u>2004</u>
Donations received during the year	8,825	6,900
Donations recorded as a direct addition to endowments	(3,490)	(2,562)
Donations recorded as deferred capital contributions	<u>(182)</u>	<u>(284)</u>
Donations recognized as revenue	<u><u>5,153</u></u>	<u><u>4,054</u></u>

14. DEFERRED CHARGE

Transaction costs and discount totaling \$934 incurred in connection with the \$100 million, 6.24% Series A unsecured debenture issue are being amortized over the term of the debt (40 years). Amortization costs recognized in fiscal 2005 are \$23 (2004 \$23).

15. COMMITMENTS

Costs to complete major capital projects in progress as at April 30, 2005 are estimated to be \$94,220 (2004 \$37,930) and will be funded by government grants, gifts and University resources.

16. CONTINGENCY

- a) The University is a defendant in a number of legal proceedings. Claims against the University in these proceedings have not been reflected in these financial statements. It is the opinion of the management and the University's legal counsel that the resolution of these claims will not have a material effect on the financial position of the University.
- b) The University is a member in a self-insurance co-operative in association with other Canadian universities to provide property and general liability insurance coverage. Under this arrangement referred to as the Canadian University Reciprocal Insurance Exchange (C.U.R.I.E.), the University is required to share in any net losses experienced by C.U.R.I.E. The commitment was recently renewed to January 1, 2008.
- c) The University allows a licensee to extract aggregate from its Puslinch property. Under the terms of the license agreement, the licensee is responsible for site restoration after extraction is complete, according to an agreed upon plan of restoration. Site restoration is regularly carried out by the licensee as extraction from portions of property is complete. While management is of the view that the licensee will meet its obligations under the agreement with respect to site restoration, should the licensee be unable to do so, the University as property owner would be responsible.

17. COMPARATIVE NUMBERS

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

UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
(UNAPPROPRIATED, ENDOWED AND INVESTED IN CAPITAL ASSETS)
FOR THE YEAR ENDED APRIL 30, 2005

(in thousands of dollars)

	OPERATING FUND	CAPITAL FUND	ANCILLARY ENTERPRISES (Schedule 2)	RESEARCH & TRUST FUND	ENDOWMENT FUND	TOTAL 2005	TOTAL 2004
REVENUE							
Ministry of Training, Colleges and Universities	133,122	1,644	217			134,983	126,387
Ministry of Agriculture and Food	49,541					49,541	50,401
Tuition (Credit and Non-Credit)	88,805					88,805	86,816
Donations (Note 13)	30			5,123		5,153	4,054
Sales of Goods and Services	37,109		60,217			97,326	99,786
Investment Income (Note 4)	1,944	3,012	381	6,317		11,654	11,077
Other Grants and Contracts	1,829			74,001		75,830	65,241
Amortization of Deferred Capital Contributions (Note 8)		16,748	229			16,977	16,667
Other	19,049	20	401			19,470	16,058
	<u>331,429</u>	<u>21,424</u>	<u>61,445</u>	<u>85,441</u>	<u>-</u>	<u>499,739</u>	<u>476,487</u>
EXPENSES							
Salaries	208,999		13,293	33,130		255,422	234,878
Benefits	55,830		2,532	3,967		62,329	63,035
Travel	6,461		146	5,512		12,119	11,680
Operating	74,320	64	23,062	22,329		119,775	113,541
Minor Renovations and Repairs		2,617	1,377			3,994	4,043
Interest		6,409	4,277			10,686	10,807
Scholarships and Bursaries	8,750			10,675		19,425	21,684
Institutional (Recovery) Charges	(8,220)		8,220			-	-
Capital Asset Amortization		29,196	3,947			33,143	31,416
	<u>346,140</u>	<u>38,286</u>	<u>56,854</u>	<u>75,613</u>	<u>-</u>	<u>516,893</u>	<u>491,084</u>
Revenue Less Expenses	(14,711)	(16,862)	4,591	9,828	-	(17,154)	(14,597)
Endowment Contributions (Note 10)					13,276	13,276	18,644
Interfund Transactions	(11,978)	22,376	(3,521)	(6,493)	(384)	-	-
Change in Fund Balance	(26,689)	5,514	1,070	3,335	12,892	(3,878)	4,047
Transfer (To) From Appropriations (Statement 3)	(1,796)	873	(233)	(3,335)		(4,491)	19,903
Net Increase (Decrease) in Fund Balances	(28,485)	6,387	837	-	12,892	(8,369)	23,950
Fund Balances, Beginning of Year							
Unappropriated, Endowed and Invested in Capital Assets	(2,943)	58,398	14,552	-	124,206	194,213	170,263
Fund Balances, End of Year							
Unappropriated, Endowed and Invested in Capital Assets	(31,428)	64,785	15,389	-	137,098	185,844	194,213
Surplus (Deficit)	<u>(31,428)</u>	<u>64,785</u>	<u>15,389</u>	<u>-</u>	<u>137,098</u>	<u>185,844</u>	<u>194,213</u>

**UNIVERSITY OF GUELPH
STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
FOR ANCILLARY ENTERPRISES
FOR THE YEAR ENDED APRIL 30, 2005**

(in thousands of dollars)

	<u>HOSPITALITY SERVICES</u>	<u>REAL ESTATE</u>	<u>STUDENT HOUSING SERVICES</u>	<u>PARKING</u>	<u>UNIVERSITY CENTRE</u>	<u>TOTAL 2005</u>	<u>TOTAL 2004</u>
REVENUE	30,687	3,596	23,256	2,088	1,818	61,445	63,027
EXPENSES							
Cost of Materials	13,463				320	13,783	14,498
Salaries	8,397	251	3,733	197	715	13,293	13,246
Benefits	1,599	59	687	46	141	2,532	2,463
Institutional Charges	1,595		6,022	186	417	8,220	7,972
Operating	4,244	560	3,865	265	345	9,279	10,030
Travel	43	11	80	3	9	146	135
Minor Renovations and Repairs	108		917	343	9	1,377	1,422
Interest		108	4,169			4,277	4,262
Capital Asset Amortization	564	394	2,855	120	14	3,947	3,806
Total Operating Expenses	<u>30,013</u>	<u>1,383</u>	<u>22,328</u>	<u>1,160</u>	<u>1,970</u>	<u>56,854</u>	<u>57,834</u>
Revenue Less Expenses	674	2,213	928	928	(152)	4,591	5,193
Interfund Transactions	<u>(418)</u>	<u>(1,604)</u>	<u>(841)</u>	<u>(842)</u>	<u>184</u>	<u>(3,521)</u>	<u>(827)</u>
Change in Fund Balance	256	609	87	86	32	1,070	4,366
Transfers (To) From Appropriations	<u>(209)</u>	<u>(20)</u>			<u>(4)</u>	<u>(233)</u>	<u>115</u>
Net Increase (Decrease) in Fund Balances	47	589	87	86	28	837	4,481
Fund Balance, Beginning of Year	4,975	9,510	(3,882)	3,617	332	14,552	10,071
Fund Balance, End of Year	<u><u>5,022</u></u>	<u><u>10,099</u></u>	<u><u>(3,795)</u></u>	<u><u>3,703</u></u>	<u><u>360</u></u>	<u><u>15,389</u></u>	<u><u>14,552</u></u>
Fund Balance Components:							
Invested in Capital Assets *	5,057	8,468	(5,276)	2,853	75	11,177	10,221
Unappropriated **	<u>(35)</u>	<u>1,631</u>	<u>1,481</u>	<u>850</u>	<u>285</u>	<u>4,212</u>	<u>4,331</u>
Fund Balance, End of Year, Surplus (Deficit)	<u><u>5,022</u></u>	<u><u>10,099</u></u>	<u><u>(3,795)</u></u>	<u><u>3,703</u></u>	<u><u>360</u></u>	<u><u>15,389</u></u>	<u><u>14,552</u></u>

* Fund Balance "Invested in Capital Assets" presents the funds expended on capital assets less accumulated amortization, related debt and deferred capital contributions.

** Accumulated net results for operations are presented in the Unappropriated Fund Balance.

UNIVERSITY OF GUELPH
STATEMENT OF OMAF REVENUES AND EXPENSES BY OBJECT
For the Year Ended April 30, 2005
(in thousands of dollars)

The University's research and education agreement with the Ontario Ministry of Agriculture and Food (OMAF) includes the research and education programs at Guelph, the operation of 3 campuses of the Ontario Agricultural College (OAC) at Alfred, Kemptville and Ridgetown, Ontario and a laboratory services' facility. This agreement was renewed for another five years effective April 1, 2002. The following figures reflect the revenues and expenses of the OMAF agreement for 2004/2005.

	OAC Guelph	OAC Alfred	OAC Kemptville	OAC Ridgetown	OVC Guelph	Other Colleges Guelph	Lab Services Division	Stations & Academic Services Guelph	Institutional Revenue & Expenses	Total OMAF 2005	Total OMAF 2004
Income											
Provincial	10,873	2,249	3,613	3,800	7,406	1,203	9,736	4,251	6,410	49,541	50,401
Tuition	267	268	1,577	1,091						3,203	3,541
Sales of Goods and Services	2	364	1,878	2,783			9,091	1,984		16,102	18,329
Other	78	711	1,376	1,212	2		29	2,116		5,524	3,033
Total Income	11,220	3,592	8,444	8,886	7,408	1,203	18,856	8,351	6,410	74,370	75,304
Expenses											
Salaries	4,619	1,964	4,348	4,961	2,057	294	9,900	3,766		31,909	34,063
Benefits	947	413	942	1,109	458	40	2,250	249		6,408	7,046
Total Personnel Costs	5,566	2,377	5,290	6,070	2,515	334	12,150	4,015		38,317	41,109
Travel	161	63	105	134	280	24	99	31		897	903
Operating	1,075	1,151	2,765	2,679	1,316	166	6,260	3,867		19,279	17,152
Equipment	68	14	360	106		37	814	510		1,909	3,321
Support for Faculty Costs	4,508				2,850	557				7,915	7,210
Service Costs									6,410	6,410	6,600
Expenses before Transfers	11,378	3,605	8,520	8,989	6,961	1,118	19,323	8,423	6,410	74,727	76,295
Interfund Transfers	(158)	(13)	(76)	(103)	447	85	(467)	(72)		(357)	(991)
Total Contract Expenses	11,220	3,592	8,444	8,886	7,408	1,203	18,856	8,351	6,410	74,370	75,304
Net Income (Expense)	-	-	-	-	-	-	-	-	-	-	-