

Consolidated Financial Statements of

# **CARLETON UNIVERSITY**

Year ended April 30, 2008

# CARLETON UNIVERSITY

## Consolidated Financial Statements

Year ended April 30, 2008

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## **AUDITORS' REPORT TO THE BOARD OF GOVERNORS**

We have audited the consolidated statement of financial position of Carleton University as at April 30, 2008 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. 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 consolidated financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

August 1, 2008

# CARLETON UNIVERSITY

## Consolidated Statement of Financial Position

April 30, 2008, with comparative figures for 2007  
(in thousands of dollars)

	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 96,976	\$ 86,356
Accounts receivable	39,517	19,763
Prepaid expenses	2,738	1,773
Current portion of net investment in lease (note 8)	398	373
	<hr/> 139,629	<hr/> 108,265
Investments (note 6)	241,446	189,836
Long-term receivable (note 7)	—	573
Net investment in lease (note 8)	14,190	14,589
Capital assets (notes 9 and 10)	348,345	336,687
	<hr/> \$ 743,610	<hr/> \$ 649,950
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,838	\$ 23,768
Deferred revenue (note 11)	58,198	43,113
Accrued vacation pay	7,223	7,664
Current portion of long-term debt (note 12)	1,528	1,433
	<hr/> 93,787	<hr/> 75,978
Long-term debt (note 12)	61,588	63,129
Interest rate swaps (note 12)	8,137	—
Deferred capital contributions (note 13)	131,891	132,849
Employee future benefits liability (note 17)	85,462	77,318
Net assets:		
Unrestricted	(102,973)	(98,177)
Internally restricted (note 14)	108,625	95,254
Investment in capital assets (note 15)	133,895	121,024
Endowments (note 16)	231,335	182,575
Interest rate swaps (note 12(d))	(8,137)	—
	<hr/> 362,745	<hr/> 300,676
Future accounting standards (note 5)		
Contingent liabilities and commitments (notes 19 and 22)	<hr/> \$ 743,610	<hr/> \$ 649,950

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Operations

Year ended April 30, 2008, with comparative figures for 2007  
(in thousands of dollars)

	2008	2007
<b>Revenue:</b>		
Government grants for general operations	\$ 142,545	\$ 147,894
Fees	142,962	137,329
Research grants and contracts	73,133	59,075
Sales and services	6,400	6,515
Donations	2,296	3,311
Investment income (note 6(c))	13,022	12,183
Amortization of deferred capital contributions (note 13)	9,486	8,425
Other (note 23)	28,252	26,686
	<hr/> 418,096	<hr/> 401,418
<b>Expenses:</b>		
Salaries	203,203	190,572
Benefits	30,159	36,198
Supplies	10,096	10,412
Minor equipment and furnishings	9,694	8,318
Externally contracted services and fees	15,743	15,385
Scholarships and bursaries	28,393	27,830
Utilities	9,903	10,144
Travel	9,258	9,563
Renovations	23,994	17,079
Interest	4,557	4,843
Amortization of capital assets	21,640	21,646
Employee future benefits	11,254	9,984
Other expenses (note 24)	19,205	20,618
	<hr/> 397,099	<hr/> 382,592
<b>Excess of revenue over expenses</b>	<hr/> <hr/> \$ 20,997	<hr/> <hr/> \$ 18,826

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Changes in Net Assets

Year ended April 30, 2008, with comparative figures for 2007  
(in thousands of dollars)

	Unrestricted	Internally restricted	Investment in capital assets	Endow-ments	Interest rate swaps	Total 2008	Total 2007
		(note 14)	(note 15)	(note 16)	(note 12(d))		
Net assets, beginning of year	\$ (98,177)	\$ 95,254	\$ 121,024	\$ 182,575	\$ —	\$ 300,676	\$ 269,077
Accounting changes – financial instruments (note 3)	—	—	—	48,834	(6,730)	42,104	—
Net assets, beginning of year, restated	(98,177)	95,254	121,024	231,409	(6,730)	342,780	269,077
Excess of revenue over expenses	20,997	—	—	—	—	20,997	18,826
Internally imposed restrictions	(13,438)	13,371	—	67	—	—	—
Net change in investments in capital assets (note 15)	(12,355)	—	12,355	—	—	—	—
Contributions to art collection (note 10)	—	—	516	—	—	516	355
Endowment contributions and investment income	—	—	—	13,706	—	13,706	12,418
Change in fair value of endowment investments	—	—	—	(13,847)	—	(13,847)	—
Change in fair value of interest rate swap	—	—	—	—	(1,407)	(1,407)	—
Net assets, end of year	\$(102,973)	\$ 108,625	\$ 133,895	\$ 231,335	\$ (8,137)	\$ 362,745	\$ 300,676
Details of year-end balance:							
Operating	\$ (9,857)	\$ —	\$ —	\$ —	\$ —	\$ (9,857)	\$ (12,144)
Plant	906	—	—	—	—	906	(26)
Ancillary (see schedule 1)	(1,337)	—	—	—	—	(1,337)	(1,025)
Provision for vacation pay	(7,223)	—	—	—	—	(7,223)	(7,664)
Provision for employee future benefits obligation	(85,462)	—	—	—	—	(85,462)	(77,318)
Appropriations	—	92,437	—	—	—	92,437	78,841
Research	—	13,701	—	—	—	13,701	12,788
Enterprise	—	2,481	—	—	—	2,481	3,621
Scholarships	—	6	—	—	—	6	4
Capital assets	—	—	133,895	—	—	133,895	121,024
Endowment	—	—	—	231,335	—	231,335	182,575
Interest rate swaps	—	—	—	—	(8,137)	(8,137)	—
	\$(102,973)	\$ 108,625	\$ 133,895	\$ 231,335	\$ (8,137)	\$ 362,745	\$ 300,676

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Cash Flows

Year ended April 30, 2008, with comparative figures for 2007  
(in thousands of dollars)

	2008	2007
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 20,997	\$ 18,826
Add (deduct) non-cash items:		
Employee future benefits liability	8,144	7,249
Amortization of capital assets	21,640	21,646
Amortization of deferred capital contributions	(9,486)	(8,425)
Net change in other non-cash operating working capital (note 21)	<u>(3,005)</u>	<u>(11,427)</u>
Net cash provided by operating activities	<u>38,290</u>	<u>27,869</u>
Financing activities:		
Decrease in mortgages payable	(195)	(186)
Decrease in loans payable	<u>(1,251)</u>	<u>(7,259)</u>
Net cash used in financing activities	<u>(1,446)</u>	<u>(7,445)</u>
Investing activities:		
Increase in investments	(16,623)	(13,753)
Decrease in net investment in lease	374	349
Increase in long-term receivable	573	(573)
Capital asset additions	(33,298)	(43,689)
Capital contributions received (note 13)	8,528	29,257
Contributions to art collection	516	355
Endowment contributions and investment income	<u>13,706</u>	<u>12,418</u>
Net cash used in investing activities	<u>(26,224)</u>	<u>(15,636)</u>
Increase in cash and cash equivalents	10,620	4,788
Cash and cash equivalents, beginning of year	86,356	81,568
Cash and cash equivalents, end of year	<u>\$ 96,976</u>	<u>\$ 86,356</u>

The University considers cash and cash equivalents to be highly liquid investments with original maturities of three months or less.

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Notes to Consolidated Financial Statements

Year ended April 30, 2008

(Tabular amounts in thousands of dollars)

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### **1. Description:**

Carleton University was incorporated as a university in 1943 under the laws of the Province of Ontario. The University is dedicated to providing post-secondary and graduate education and to conducting research.

The University is a registered charity and therefore is, under section 149 of the Income Tax Act, exempt from payment of income tax.

The consolidated financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the operations and organizations controlled by the University. Accordingly, these consolidated financial statements include the academic, administrative and other operating expenditures funded by fees, grants and other general revenue; restricted purpose endowment funds and ancillary operations. These statements also include the assets, liabilities, deficit and operations of the University's subsidiary and joint ventures as follows:

Sudbury Neutrino Observatory Institute is a joint venture of the University and three other Canadian universities, which performs research in sub-atomic physics. The University's proportionate share of the Institute's operations has been included in these consolidated financial statements.

TRIUMF is a joint venture of the University and five other Canadian universities, which performs research in particle and nuclear research. The University's proportionate share of TRIUMF's operations has been included in these consolidated financial statements.

Carleton University Foundation (U.S.) was incorporated without share capital on February 12, 1996 under the District of Columbia Non-Profit Corporation Act. The Foundation is not included in these consolidated financial statements. The objects of the Foundation, as established by the Internal Revenue Code of 1986, are to accept, receive, manage and distribute money and other property to support education and research at the University. The Foundation had minimal activity in the year.

### **2. Summary of significant accounting policies:**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied within the framework of the accounting policies summarized below:

#### **(a) Investments:**

The University has designated endowment investments as available-for-sale and are recorded at fair value. Realized investment income and unrealized gains or losses from the change in fair value related to endowment investments are recorded in the consolidated statement of changes in net assets.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 2. Summary of significant accounting policies (continued):

### (a) Investments (continued):

The Parker loans for students and NWRC Capital renewal investments are designated as held-for-trading. Realized and unrealized gains or losses from the change in fair value related to these externally restricted investments are recorded as deferred revenue.

Fair value of available-for-sale and held-for-trading investments is determined as quoted market prices.

The Residence sinking fund investments are designated as held-to-maturity and are recorded at amortized cost using the effective interest rate method.

Purchases of investments are recorded on the settlement date. Transaction costs related to the purchase or sale of investments are recorded against realized investment income of the respective funds.

For the 2007 comparative period, all investments are recorded at cost.

### (b) Capital assets:

Purchased capital assets are recorded at cost. Donated capital assets are recorded at an appraised value established by independent appraisal in the period received by the University.

Amortization is provided on a straight-line basis over the estimated useful lives as follows:

Asset	Useful life
Buildings	40 years
Building improvements	20 years
Equipment and furniture	10 years
Computer equipment	4 years
Software	4 years
Automobiles	5 years
Leasehold improvements	5 years
Library holdings	10 years

### (c) Deferred capital contributions:

Contributions received for capital assets are deferred in the accounts and amortized over the same term and on the same basis as the related capital asset.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 2. Summary of significant accounting policies (continued):

### (d) Art collection:

Purchases of items to be included in the collection are expensed. Donations of items to be included in the collection are recorded as direct increases in net assets at an appraised value established by independent appraisal in the period received by the University.

### (e) Recognition of revenue and other contributions:

The University follows the deferral method of accounting for contributions, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions and investment income externally restricted for purposes other than endowment are deferred and recognized as revenue in the period in which the related expenses are recognized. Endowment contributions and restricted investment revenue earned for re-endowment are recognized as direct increases in net assets in the period in which they are received or earned.

Student fees are recognized as revenue in the period that the courses and seminars are held. Sales revenue is recognized at point of sale. Contract revenue is recognized as the service is provided.

### (f) Internally imposed restrictions on net assets:

The University internally restricts the use of portions of its externally unrestricted net assets for specific future uses. When incurred, expenses are charged to operations, and the balance of internally restricted assets is reduced accordingly.

### (g) Contributed services:

Volunteers, as well as members of the staff and faculty of the University, contribute an indeterminable number of hours per year to assist the University in carrying out its service delivery activities. Because of the difficulty of determining their fair value, contributed services are not recognized in these consolidated financial statements.

### (h) Employee benefit plans:

The University accrues its obligations for employee benefit plans. The cost of non-pension post-retirement and post-employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and administration's best estimate of salary escalation, retirement ages of employees and expected health care costs.

Adjustments arising from plan amendments, including past service costs, are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation is amortized over the average remaining service period of the active employees.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 2. Summary of significant accounting policies (continued):

### (i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

### (j) Derivative financial instruments:

The University is party to certain derivative financial instruments, principally interest rate swaps.

The University accounts for interest rate swaps as hedges. The University formally documents the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and strategies for undertaking various hedging transactions. The University also formally assesses, both at the hedge's inception and on an on-going basis, whether the interest rate swaps are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items. The effective portion of any unrealized gain or loss on the interest rate swaps is recorded as a direct increase to net assets. Payments and receipts under the interest rate swaps are recognized as adjustments to interest expense on long-term debt.

Derivative financial instruments that do not qualify for hedge accounting are carried at fair value, with changes in value recorded in the consolidated statement of operations.

## 3. Accounting changes – financial instruments:

In 2005, the Canadian Institute of Chartered Accountants released *Handbook Section 3855, Financial Instruments – Recognition and Measurement*, and *Section 3865 Hedges*. These new standards changed the way certain financial assets and liabilities are accounted for and reported in the consolidated financial statements.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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### **3. Accounting changes – financial instruments (continued):**

In accordance with the transitional provisions of these Sections, the University has prospectively adopted the recommendations, and therefore the 2007 comparative figures have not been restated.

#### **(a) Investments:**

The University has designated its endowed investments as available-for-sale. The Parker loans for students and NWRC capital renewal investments are designated as held-for-trading. These investments are now recorded at fair value for the 2008 fiscal year. Prior to fiscal 2008, these investments were recorded at cost and realized gains and losses were recognized in the year of disposal.

As a result of adopting these Sections, the opening balance of the endowment investments in fiscal 2008 has been increased by \$48,834,000 to \$231,947,000 to reflect the prior year's net appreciation of the fair value of endowed investments. The opening value of the Parker loans for students investment was increased \$272,000 to \$1,336,000 and the NWRC capital renewal investment \$11,000 to \$576,000. As these are externally restricted assets, the deferred revenue opening balance was also increased accordingly.

The University has designated the bonds held for the Residence sinking fund as held-to-maturity and, as such, these investments are recorded at amortized cost.

#### **(b) Interest rate swaps:**

The University has designated its interest rate swap agreements as held-for-trading and, as such, these agreements are recorded at fair value for the 2008 year. Fair value is determined as the payment required to cancel the interest rate swaps as at April 30. As a result of adopting these Sections, the effect is to decrease opening net assets for interest rate swaps by \$6,730,000 and to increase long-term liabilities. The terms of the interest rate swaps are disclosed in note 10(d).

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## **4. Adoption of new accounting standards:**

Effective October 1, 2006, the University adopted the revised CICA Handbook Section 1506 *“Accounting Changes”* relating to changes in accounting policies, changes in accounting estimates and errors. Adoption of these recommendations had no effect on the financial statements for the year ended April 30, 2008, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the University because they are not effective until a future date (refer to Future Accounting Standards (note 5)).

## **5. Future accounting standards:**

The CICA issued three new accounting standards on December 31, 2006: Handbook Section 1535 *“Capital Disclosures”*; Handbook Section 3862 *“Financial Instruments – Disclosures”*, Handbook Section 3863 *“Financial Instruments – Presentation”*. Section 1535 specifies the disclosures regarding how one entity manages its capital. The new Handbook Sections 3862 and 3863 replace Handbook Section 3860 *“Financial Instruments - Disclosure and Presentation”*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

These standards are effective for the University’s financial reporting period beginning on May 1, 2008.

The University is currently assessing the impact of these new accounting standards on its financial statements.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

## 6. Investments:

### (a) Carrying value; cost and fair values:

The carrying value, cost and fair value of the investments are as follows:

	2008		
	Carrying value	Fair value	Cost
Bonds	\$ 5,157	\$ 5,678	\$ 5,157
Marketable securities	236,289	236,289	201,348
	<b>\$ 241,446</b>	<b>\$ 241,967</b>	<b>\$ 206,505</b>

  

	2007		
	Carrying value	Fair value	Cost
Bonds	\$ 4,712	\$ 5,344	\$ 4,712
Marketable securities	185,124	234,241	185,124
	<b>\$ 189,836</b>	<b>\$ 239,585</b>	<b>\$ 189,836</b>

The carrying value of bonds is amortized cost and the carrying value of marketable securities is fair value for 2008. The carrying value of all investments is cost for 2007.

### (b) Purpose:

Investments held by the University include funds, which are permanently endowed, restricted in use or related to the residence sinking fund as follows:

	2008	2007
	Carrying value	Carrying value
Endowments	\$ 234,086	\$ 183,113
Centre for Research in Particle Physics	277	382
Residence sinking fund	5,157	4,712
Parker loans for students	1,318	1,064
NWRC Capital renewal	556	565
Sprott Student Investment Fund	52	—
	<b>\$ 241,446</b>	<b>\$ 189,836</b>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 6. Investments (continued):

### (c) Investment income:

Investment income earned is reported as follows:

	2008	2007
Income earned on endowments	\$ 6,424	\$ 2,222
Income earned on restricted investments	320	63
Income earned on unrestricted investments	4,797	4,019
Income earned on residence sinking fund investments	444	404
 Total investment income earned	 11,985	 6,708
Add (less) restricted amounts allocated (recognized)	(920)	387
Add amounts distributed from endowment in excess of annual income earned on endowments	1,957	5,088
 Total investment income recognized as revenue	 \$ 13,022	 \$ 12,183

## 7. Long-term receivable:

The University held a promissory note receivable, maturing in 2010. The loan was written off in the current year.

## 8. Net investment in lease:

Carleton University has entered into an agreement with Environment Canada under which Carleton University built the National Wildlife Research Centre on its property and leased the building to Environment Canada. The lease term is for 99 years starting May 1, 2002.

Carleton University's net investment in the direct financing lease consists of:

	2008	2007
Minimum lease payments receivable	\$ 24,700	\$ 26,000
Unearned financing revenue	(10,112)	(11,038)
 Less current portion of net investment in lease	 14,588	 14,962
	(398)	(373)
 Net investment in lease	 \$ 14,190	 \$ 14,589

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 8. Net investment in lease (continued):

At April 30, 2008, future minimum lease payments receivable under the direct financing lease are as follows:

2009		\$ 1,300
2010		1,300
2011		1,300
2012		1,300
2013		1,300
Thereafter		18,200
		<hr/>
		\$ 24,700

## 9. Capital assets:

Capital assets consist of the following:

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Land	\$ 6,709	\$ —	\$ 6,709	\$ 6,430
Buildings	341,501	116,878	224,623	217,652
Building improvements	30,359	1,282	29,077	24,658
Equipment and furniture	83,301	33,954	49,347	47,841
Computer equipment	10,982	7,973	3,009	3,375
Software	12,124	11,432	692	2,298
Automobiles	456	232	224	252
Library holdings	31,634	19,325	12,309	12,342
Art collection	22,355	—	22,355	21,839
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 539,421	\$ 191,076	\$ 348,345	\$ 336,687

Included in buildings is \$27,098,000 (2007 - \$18,624,000) of construction in progress. As construction in progress is not yet in use, these assets are not amortized.

Cost and accumulated amortization at April 30, 2007 amounted to \$506,123,000 and \$169,436,000 respectively.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 10. Art collection:

The University has an art collection comprising approximately 27,700 pieces of art. In 2008, there were additions of donated pieces of art at an appraised value of \$516,000 (2007 - \$355,000).

## 11. Deferred revenue:

Deferred revenue includes deposits, prepayments on contracts and deferred contributions received by the University. Deferred contributions are unspent externally restricted grants and donations received in the current and prior years for expenditures in a future year.

Details of the year-end balances are as follows:

	2008	2007
Research	\$ 27,026	\$ 23,735
Grants	15,658	3,701
Student aid	7,494	7,436
Donations	4,663	2,972
Other	3,357	5,269
	<hr/> <u>\$ 58,198</u>	<hr/> <u>\$ 43,113</u>

Research includes the unexpended portion of restricted research grants and prepayments on research contracts.

Grants are unexpended restricted grants to be spent on specific items in future years.

Student aid is the unexpended donations and interest to be spent on student aid and other special purposes.

Donations are the unexpended portion of donor restricted gifts to be spent on specific items in future years.

Other includes deposits and prepayments on contracts.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

## 12. Long-term debt:

As at April 30, 2008, the University has principal outstanding of \$63,116,000 (2007- \$64,562,000) under mortgages and loans.

### (a) Details of long-term debt:

	Maturity	Interest rate	Annual payment	Principal outstanding
Mortgages payable:				
Lanark and Renfrew Residences and University Commons	2013	5.375%	\$ 86	\$ 362
Grenville and Russell Residences	2017	5.375%	79	536
Glengarry Residence	2020	6.375%	176	1,450
Stormont-Dundas Residence	2010	10.360%	1,222	11,800
				14,148
Loans payable:				
Leeds Residence	2012	6.724%	1,607	16,945
Prescott Residence	2013	6.299%	1,520	17,434
NWRC loan	2028	6.460%	1,331	14,589
				48,968
				63,116
Less current portion of long-term debt				
				1,528
				\$ 61,588

Annual payment amounts include principal and interest.

For the Stormont-Dundas Residence mortgage, interest is payable semi-annually with the principal amount due on maturity.

### (b) Long-term debt repayments:

Anticipated requirements to meet the principal portion of long-term repayments are as follows:

2009	\$ 1,528
2010	1,628
2011	1,736
2012	1,850
2013	1,951
Thereafter	54,423
	\$ 63,116

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## **12. Long-term debt (continued):**

### **(c) Residence sinking fund:**

A sinking fund was established for the purpose of accumulating funds to retire the \$11,800,000 mortgage on the Stormont-Dundas Residence maturing April 1, 2010. The full amount has been set aside in money market funds and in guaranteed investment certificates, so that, together with interest, there will be sufficient funds necessary to extinguish the mortgage liability on maturity.

### **(d) Interest rate swaps:**

The University has entered into interest rate swap agreements to manage the volatility of interest rates. The University converted a net notional \$55,008,000 of floating rate debt for fixed rate debt ranging from 6.299% to 6.724%. The related derivative agreements are in place until the maturity of the debts in 2012, 2013 and 2028.

These interest rate swaps qualify, and have been designated by the University, as cash flow hedging items against the floating rate long-term debt. The University has assessed the hedging relationship as effective. The fair value of the interest rate swaps of \$8,137,000 is recorded on the statement of financial position. Because the hedging relationship is effective, the change in fair value of the interest rate swaps is recorded in the statement of changes in net assets, with no impact on the University's excess of revenue over expenditures.

## **13. Deferred capital contributions:**

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of the deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2008	2007
Balance, beginning of year	\$ 132,849	\$ 112,017
Less amortization of deferred capital contributions	(9,486)	(8,425)
 Add capital contributions received:		
Grants for equipment and buildings	7,540	28,942
Donated assets	988	315
	<hr/> 8,528	<hr/> 29,257
 Balance, end of year	<hr/> \$ 131,891	<hr/> \$ 132,849

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

**14. Internally restricted net assets:**

	Balance, beginning of year	Change in year	Balance, end of year
Appropriations	\$ 78,841	\$ 13,596	\$ 92,437
Research	12,788	913	13,701
Enterprise	3,621	(1,140)	2,481
Scholarships	4	2	6
	<hr/>	<hr/>	<hr/>
	\$ 95,254	\$ 13,371	\$ 108,625

Internally restricted net assets include departmental funds available for spending at the department's discretion and commitments for specific purpose which reflect the application of University policy as follows:

Appropriations represent commitments by the University of current year unspent budgetary funds for capital and other expenditures, which will be incurred in the following year. The commitment can either be to an outside supplier or an internal commitment to a departmental manager that budgetary balances available in the current year can be used for specific projects in the future.

Research funds represent recoveries and other revenue from the University's research activities and are available for future research expenditures.

Enterprise funds represent fees and other revenues from the University's non-credit, professional development activities and are available for future enterprise activities.

Scholarships represent the unspent portion of unrestricted endowment fund income allocated to scholarships by the University.

**15. Investment in capital assets:**

The investment in capital assets consists of the following:

	2008	2007
Capital assets	\$ 348,345	\$ 336,687
Less amounts financed by:		
Deferred capital contributions	(131,891)	(132,849)
Mortgages payable (net of residence sinking fund)	(3,051)	(3,692)
Loans payable (Leeds, Prescott buildings)	(34,379)	(35,254)
Other short-term financing	(45,129)	(43,868)
	<hr/>	<hr/>
	\$ 133,895	\$ 121,024

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 15. Investment in capital assets (continued):

The net change in investment in capital assets is calculated as follows:

	2008	2007
Capital assets additions:		
Total additions	\$ 33,298	\$ 43,689
Less:		
Contributions to art collection	(516)	(355)
Donated assets	(988)	(315)
Additions financed with grants	<u>(7,540)</u>	<u>(28,942)</u>
	24,254	14,077
Financing:		
Mortgage payable	196	186
Increase in residence sinking fund	445	404
Loans payable	875	6,906
Other short-term financing	<u>(1,261)</u>	<u>3,445</u>
	255	10,941
Amortization of deferred capital contributions	9,486	8,425
Amortization of capital assets	<u>(21,640)</u>	<u>(21,646)</u>
	(12,154)	(13,221)
Net change in investment in capital assets	<u>\$ 12,355</u>	<u>\$ 11,797</u>

## 16. Endowments:

Contributions restricted for endowment consist of monies received primarily as benefactions and which either the donor or the Board of Governors has designated as endowment. The annual income earned from funds designated as endowment by the donor may be expended only for the purpose designated. If no purpose is designated by the donor then the income is expended at the direction of the Board. Monies designated as endowment by the Board are unrestricted and the principal and annual income may be expended at its direction.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

## 16. Endowments (continued):

Investment income earned is distributed at a rate of 4.5% (2007 - 4.5%) of the moving average market value over four years of the endowment fund investments. Actual investment income earned in excess of the distributed amount is held in the fund to maintain capital.

	<u>Externally endowed</u>	<u>Board designated</u>	<u>Total 2008</u>	<u>Total 2007</u>
Donations and bequests	\$ 5,866	\$ —	\$ 5,866	\$ 5,947
Realized gain on sale of investments	11,149	96	11,245	11,658
Investment income	5,072	52	5,124	2,246
Income distributed	(8,381)	(81)	(8,462)	(7,383)
	13,706	67	13,773	12,468
Unrealized (loss) on sale of investments	(13,714)	(133)	(13,847)	—
Net change in year	(8)	(66)	(74)	12,468
Fund balance, beginning of year	181,058	1,517	182,575	170,107
Accounting change for financial instruments (note 3)	48,365	469	48,834	—
	229,423	1,986	231,409	170,107
Fund balance, end of year	<u>\$ 229,415</u>	<u>\$ 1,920</u>	<u>\$ 231,335</u>	<u>\$ 182,575</u>

## 17. Employee future benefits:

The University has defined post-retirement benefit plans (other than pensions) and defined post-employment benefit plans covering substantially all of its employees. These plans provide health, dental and severance benefits to eligible employees. The most recent actuarial evaluation of employee future benefits was completed as at May 1, 2006.

At April 30, 2008, the University's future employee benefits liability and accrued benefit obligations are as follows:

	<u>2008</u>	<u>2007</u>
Accrued benefit obligation	\$ 91,807	\$ 100,926
Unamortized past service costs	(835)	(900)
Unamortized net actuarial loss	(5,510)	(22,708)
Employee future benefits liability	<u>\$ 85,462</u>	<u>\$ 77,318</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 17. Employee future benefits (continued):

Similar to most post-employment benefit plans (other than pension) in Canada, the University's plan is not pre-funded, resulting in a plan deficit equal to the accrued benefit obligation.

The significant actuarial assumptions adopted in estimating the University's accrued benefit obligations are as follows:

	Post-retirement benefits plan	Post-employment benefits plan
Discount rate	5.25%	5.75%
Salary escalation	5.00%	5.00%
Dental benefits escalation	4.50%	4.50%
Drugs benefits escalation	5.00% to 10.00%	5.00% to 10.00%
Hospital benefits escalation	4.50% to 9.00%	4.50% to 9.00%

Included in the consolidated statement of revenue and expense is an annual expense in the amount of \$11,254,000 (2007 - \$9,984,000) regarding employee future benefits. The annual expense includes the current service cost of employee benefits for the year and the interest cost for the unfunded accrued benefit obligation. During 2008, the University contributed \$3,110,000 (2007 - \$2,735,000) to cover pay-as-you-go disbursements incurred during the year for these employee future benefits.

Health care sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health-care plans. A 1% change in assumed health care trend rates would have the following effects for 2008.

	Increase	Decrease
Net benefit cost	\$ 1,804	\$ 1,384
Accrued benefit obligation	13,474	10,591

## 18. Pension plan and pension plan liability:

The University contributes to a defined contribution Pension Plan with a defined benefit minimum guarantee, which covers substantially all full-time employees.

An actuarial valuation of the Carleton University Retirement Plan as of July 1, 2007 determined that the plan had a \$900,000 unfunded going-concern liability and a \$15,000,000 solvency surplus as at July 1, 2007. The going-concern liability is to be repaid over a period not to exceed 15 years as required under the Pension Benefits Act of Ontario. Amortization of the unfunded liability is expected to require special payments of \$101,000 per year until 2022.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## **18. Pension plan and pension plan liability (continued):**

The University contributed \$11,246,000 (2007 - \$14,683,000) to the pension plan during fiscal 2007-08 and this contribution is included in the consolidated statement of operations.

## **19. Contingent liabilities and commitments:**

At April 30, 2008, commitments for future acquisitions, construction and renovations amounted to approximately \$ 27,629,000 (2007 - \$14,532,000).

Letters of credit totaling \$ 7,892,000 (2007 - \$7,525,000) were issued on behalf of the University at year-end.

## **20. Financial instruments:**

### **(a) Concentration of credit risk:**

The University is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. Credit exposure is minimized by dealing mostly with creditworthy counterparties such as government agencies and public companies. The University also enforces approved collection policies for student accounts.

### **(b) Fair values:**

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and accrued vacation pay approximate their fair value due to the relatively short periods to maturity of the instruments.

The fair values of other financial assets and liabilities included in the consolidated statement of financial position are as follows:

	2008		2007	
	Fair value	Carrying value	Fair value	Carrying value
Investments	\$ 241,967	\$ 241,446	\$ 239,584	\$ 189,836
Long-term receivable	—	—	536	573
Loans payable	55,738	48,968	59,529	50,219
Mortgages payable	14,675	14,148	15,066	14,343
Interest rate swaps	8,137	8,137	6,730	—

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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## 20. Financial instruments (continued):

### (b) Fair values (continued):

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- 1) Investments: at the quoted market value on April 30.
- 2) Long-term receivable, loans payable and mortgages payable: at the present value of contractual future payments of principal and interest discounted at the current market rates of interest available to the University for the same or similar instruments.
- 3) Interest rate swaps: at the quoted fair value on April 30 from the bank.

## 21. Net change in non-cash operating working capital:

	2008	2007
Increase in accounts receivable	\$ (19,491)	\$ (4,116)
Decrease (increase) in prepaid expenses	(965)	724
Increase (decrease) in accounts payable and accrued liabilities	2,807	(4,949)
Increase (decrease) in deferred revenue	15,085	(4,276)
Increase (decrease) in accrued vacation pay	(441)	1,190
	<hr/> <u>\$ (3,005)</u>	<hr/> <u>\$ (11,427)</u>

## 22. Canadian Universities Reciprocal Insurance Exchange:

The University is a member of the Canadian Universities Reciprocal Insurance Exchange (CURIE), a self-insurance co-operative comprised of Canadian universities and colleges. CURIE insures property damage, general liability and errors and omissions risks. If premiums collected are insufficient to cover expenses and claims, the University may be requested to pay additional amounts.

## 23. Other revenue:

	2008	2007
Rental revenue	\$ 7,848	\$ 7,536
Registration and membership revenue	4,800	4,098
Commission and sponsorship revenue	6,872	6,162
Medical insurance recoveries	1,310	1,338
Salary and benefit recoveries	1,127	1,212
Other miscellaneous revenue	6,295	6,340
	<hr/> <u>\$ 28,252</u>	<hr/> <u>\$ 26,686</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2008  
(Tabular amounts in thousands of dollars)

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**24. Other expenses:**

	2008	2007
Equipment rental	\$ 3,029	\$ 3,336
Property taxes and insurance	2,528	2,471
Minor repair and upkeep	2,488	2,336
Banking and bad debts	2,258	1,330
Advertising and promotion	2,084	2,366
Communication	1,886	2,050
Other miscellaneous expense items	4,932	6,729
	<hr/> <b>\$ 19,205</b>	<hr/> <b>\$ 20,618</b>

**25. Comparative figures:**

Certain 2007 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2008.

# CARLETON UNIVERSITY

## Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2008  
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	Graphic Services	Health Services
Revenues	\$ 8,094	\$ 1,248	\$ 1,735	\$ 2,408
Expenses	8,043	1,243	1,383	2,855
Excess (deficiency) of revenues over expenses	51	5	352	(447)
Net assets, beginning of year	(1,005)	–	–	(51)
Transfer from (to) non-ancillary unrestricted net assets	194	–	(167)	303
Appropriated to internally restricted net assets	–	(5)	(185)	–
Return of funds from internally restricted net assets	–	–	–	–
Unrestricted net assets, end of year	\$ (760)	\$ –	\$ –	\$ (195)
<hr/>				
Internally restricted				
Net assets, beginning of year	\$ –	\$ 307	\$ 162	\$ –
Appropriated from unrestricted net assets	–	5	185	–
Return of funds to unrestricted net assets	–	–	–	–
Net assets, end of year	\$ –	\$ 312	\$ 347	\$ –

Ancillary Property Rentals		Parking		Residence and Food Services		University Centre		Ancillary Capital Fund		Total 2008	Total 2007		
\$	2,641	\$	3,368	\$	17,813	\$	474	\$	174	\$	37,955	\$	36,932
	2,104		2,072		15,099		397		559		33,755		34,718
	537		1,296		2,714		77		(385)		4,200		2,214
	64		—		—		(33)		—		(1,025)		(1,115)
	(303)		(175)		(5,423)		(724)		76		(6,219)		(563)
	—		(1,121)		—		—		—		(1,311)		(3,028)
	—		—		2,709		—		309		3,018		1,467
\$	298	\$	—	\$	—	\$	(680)	\$	—	\$	(1,337)	\$	(1,025)
<hr/>													
\$	—	\$	1,525	\$	4,163	\$	—	\$	371	\$	6,528	\$	4,967
	—		1,121		—		—		—		1,311		3,028
	—		—		(2,709)		—		(309)		(3,018)		(1,467)
\$	—	\$	2,646	\$	1,454	\$	—	\$	62	\$	4,821	\$	6,528

# CARLETON UNIVERSITY

Schedule 2 – Ontario Student Opportunity Trust Fund (Phase I and Phase II) and Ontario Trust for Student Support

(in thousands of dollars)

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## Ontario Student Opportunity Trust Fund (Phase I)

The externally restricted endowments include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund I matching program to award student aid as a result of raising an equal amount of endowed donations.

The University has recorded the following amounts under the program:

	2008	2007
<b>Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2008</b>		
Fund balance at beginning of year	\$ 17,823	\$ 17,823
Cash donations received	27	–
Prior year adjustments	–	–
Fund balance at end of year	<u>\$ 17,850</u>	<u>\$ 17,823</u>

## Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2008

Balance, beginning of year	\$ 2,592	\$ 2,672
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	2,789	2,555
Bursaries awarded (total number: 3,099)	(2,931)	(2,635)
Balance, end of year	<u>\$ 2,450</u>	<u>\$ 2,592</u>

The market value of the endowment as at April 30, 2008 was \$67,326,000 (2007 - \$69,632,000).

# CARLETON UNIVERSITY

Schedule 2 – Ontario Student Opportunity Trust Fund (Phase I and Phase II) and Ontario Trust for Student Support (continued)

(in thousands of dollars)

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## **Ontario Student Opportunity Trust Fund (Phase II)**

The externally restricted endowments include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund II matching program for the period of April 1, 2006 to April 30, 2008 to award student aid as a result of raising an equal amount of endowed donations.

The University has recorded the following amounts under the program:

	2008	2007
<b>Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2008</b>		
Fund balance at beginning of year	\$ 4,566	\$ 4,566
Cash donations received	14	–
Audited unmatched cash donations, received between March 27, 2003 and March 31, 2005, transferred to OTSS in 2005-06	–	–
Fund balance at end of year	<u>\$ 4,580</u>	<u>\$ 4,566</u>

## **Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2008**

Balance, beginning of year	\$ 254	\$ 207
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	279	266
Bursaries awarded (total number: 221)	(289)	(219)
Balance, end of year	<u>\$ 244</u>	<u>\$ 254</u>

The market value of the endowment as at April 30, 2008 was \$7,013,000 (2007 - \$7,248,000).

# CARLETON UNIVERSITY

Schedule 2 – Ontario Student Opportunity Trust Fund (Phase I and Phase II) and Ontario Trust for Student Support (continued)

(in thousands of dollars)

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## Ontario Trust for Student Support

The externally restricted endowments include monies provided by the Government of Ontario from the Ontario Trust for Student Support matching program for the period April 1, 2007 to March 31, 2008 to award student aid as a result of raising an equal amount of endowed donations.

The University has recorded the following amounts under the program:

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2008

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### **Schedule of donations received between April 1, 2007 and March 31, 2008**

Cash donations matched between April 1, 2007 and March 31, 2008	\$ 1,669
Unmatched cash donations (received between April 1, 2007 and March 31, 2008)	59
<b>Total cash donations</b>	<b>\$ 1,728</b>

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### **Schedule of Changes in Endowment Fund Balance for the period April 1, 2007 to March 31, 2008**

Balance, beginning of year	\$ 7,683
Eligible cash donations received between April 1, 2007 and March 31, 2008 in compliance with the November 2005 Program Guidelines and Reporting Requirements	1,168
Matching funds received/receivable from MTCU in 2007-08	1,669
Cash donations ineligible for match for the period between April 1, 2007 and March 31, 2008	58
<b>Fund balance at end of year</b>	<b>\$ 10,578</b>

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### **Schedule of Changes in Expendable Funds Available for Awards for the period April 1, 2007 to March 31, 2008**

Balance, beginning of year	\$ 88
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	347
Cash donations (received between April 1, 2007 and March 31, 2008)	2
Bursaries awarded (total number: 168)	(186)
<b>Balance, end of year</b>	<b>\$ 251</b>