

Consolidated Financial Statements of

CARLETON UNIVERSITY

Year ended April 30, 2009

CARLETON UNIVERSITY

Consolidated Financial Statements

Year ended April 30, 2009

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KPMG LLP
Chartered Accountants
Suite 2000
160 Elgin Street
Ottawa, ON K2P 2P8
Canada

Telephone (613) 212-KPMG (5764)
Fax (613) 212-2896
Internet www.kpmg.ca

AUDITORS' REPORT TO THE BOARD OF GOVERNORS

We have audited the consolidated statement of financial position of Carleton University as at April 30, 2009 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, 2009 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

July 31, 2009

CARLETON UNIVERSITY

Consolidated Statement of Financial Position

April 30, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 116,971	\$ 96,976
Accounts receivable	23,690	39,517
Prepaid expenses	2,816	2,738
Current portion of net investment in lease (note 6)	425	398
	<u>143,902</u>	<u>139,629</u>
Investments (note 5)	190,242	241,446
Net investment in lease (note 6)	13,765	14,190
Capital assets (notes 7 and 8)	369,938	348,345
	<u>\$ 717,847</u>	<u>\$ 743,610</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 20,022	\$ 26,838
Deferred revenue (note 9)	51,270	58,198
Accrued vacation pay	7,342	7,223
Current portion of long-term debt (note 10(d))	13,611	1,528
	<u>92,245</u>	<u>93,787</u>
Long-term debt (note 10)	62,570	61,588
Interest rate swaps (note 10(d))	14,412	8,137
Deferred capital contributions (note 11)	139,754	131,891
Employee future benefits liability (note 15)	92,008	85,462
Net assets:		
Unrestricted	(106,079)	(102,973)
Internally restricted (note 12)	116,856	108,625
Investment in capital assets (note 13)	140,612	133,895
Endowments (note 14)	179,881	231,335
Interest rate swaps (note 10(d))	(14,412)	(8,137)
	<u>316,858</u>	<u>362,745</u>
Contingent liabilities and commitments (notes 17 and 20)	<u>\$ 717,847</u>	<u>\$ 743,610</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Operations

Year ended April 30, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Revenue:		
Government grants for general operations	\$ 148,021	\$ 142,545
Fees	151,457	142,962
Research grants and contracts	55,634	73,133
Sales and services	6,875	6,400
Donations	10,749	2,296
Investment income (note 5(c))	15,060	13,022
Amortization of deferred capital contributions (note 11)	9,253	9,486
Other (note 21)	29,499	28,252
	<u>426,548</u>	<u>418,096</u>
Expenses:		
Salaries	214,600	203,203
Benefits	35,082	30,159
Supplies	9,874	10,096
Minor equipment and furnishings	7,704	9,694
Externally contracted services and fees	15,043	15,743
Scholarships and bursaries	30,423	28,393
Utilities	10,173	9,903
Travel	9,739	9,258
Renovations	17,235	23,994
Interest	4,918	4,557
Amortization of capital assets	21,186	21,640
Employee future benefits	9,868	11,254
Other expenses (note 22)	29,370	19,205
	<u>415,215</u>	<u>397,099</u>
Excess of revenue over expenses	<u>\$ 11,333</u>	<u>\$ 20,997</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2009, with comparative figures for 2008
(in thousands of dollars)

	Unrestricted	Internally restricted	Investment in capital assets	Endow- ments	Interest rate swaps	Total 2009	Total 2008
		(note 12)	(note 13)	(note 14)	(note 10(d))		
Net assets, beginning of year	\$(102,973)	\$ 108,625	\$ 133,895	\$ 231,335	\$ (8,137)	\$ 362,745	\$ 342,780
Excess of revenue over expenses	11,333	—	—	—	—	11,333	20,997
Internally imposed restrictions	(8,067)	8,231	—	(164)	—	—	—
Net change in investments in capital assets (note 13)	(6,372)	—	6,372	—	—	—	—
Contributions to art collection (note 8)	—	—	345	—	—	345	516
Endowment contributions and investment income (note 14)	—	—	—	9,486	—	9,486	13,706
Change in fair value of endowment investments (note 14)	—	—	—	(60,776)	—	(60,776)	(13,847)
Change in fair value of interest rate swaps	—	—	—	—	(6,275)	(6,275)	(1,407)
Net assets, end of year	\$(106,079)	\$ 116,856	\$ 140,612	\$ 179,881	\$ (14,412)	\$ 316,858	\$ 362,745
Details of year-end balance:							
Operating	\$ (7,910)	\$ —	\$ —	\$ —	\$ —	\$ (7,910)	\$ (9,857)
Plant	849	—	—	—	—	849	906
Ancillary	332	—	—	—	—	332	(1,337)
Provision for vacation pay	(7,342)	—	—	—	—	(7,342)	(7,223)
Provision for employee future benefits obligation	(92,008)	—	—	—	—	(92,008)	(85,462)
Appropriations	—	99,018	—	—	—	99,018	92,437
Research	—	14,912	—	—	—	14,912	13,701
Enterprise	—	2,920	—	—	—	2,920	2,481
Scholarships	—	6	—	—	—	6	6
Capital assets	—	—	140,612	—	—	140,612	133,895
Endowment	—	—	—	179,881	—	179,881	231,335
Interest rate swaps	—	—	—	—	(14,412)	(14,412)	(8,137)
	\$(106,079)	\$ 116,856	\$ 140,612	\$ 179,881	\$ (14,412)	\$ 316,858	\$ 362,745

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Cash Flows

Year ended April 30, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 11,333	\$ 20,997
Add (deduct) non-cash items:		
Employee future benefits liability	6,546	8,144
Amortization of capital assets	21,186	21,640
Amortization of deferred capital contributions (note 11)	(9,253)	(9,486)
Net change in other non-cash operating working capital (note 19)	2,124	(3,005)
Net cash provided by operating activities	31,936	38,290
Financing activities:		
Decrease in mortgages payable	(207)	(195)
Increase (decrease) in loans payable	13,272	(1,251)
Net cash used in financing activities	13,065	(1,446)
Investing activities:		
Increase in investments	(9,572)	(16,623)
Decrease in net investment in lease	398	374
Decrease in long-term receivable	-	573
Capital asset additions	(42,779)	(33,298)
Capital contributions received (note 11)	17,116	8,528
Contributions to art collection	345	516
Endowment contributions and investment income	9,486	13,706
Net cash used in investing activities	(25,006)	(26,224)
Increase in cash and cash equivalents	19,995	10,620
Cash and cash equivalents, beginning of year	96,976	86,356
Cash and cash equivalents, end of year	\$ 116,971	\$ 96,976

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, 2009
(Tabular amounts in thousands of dollars)

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 they 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, 2009

(Tabular amounts in thousands of dollars)

2. Summary of significant accounting policies (continued):

(a) Investments (continued):

The Parker loans for students and National Wildlife Research Centre (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 at 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.

(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

Construction costs are capitalized as work progresses and amortization commences as work is substantially completed.

(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, 2009

(Tabular amounts in thousands of dollars)

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, 2009

(Tabular amounts in thousands of dollars)

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 revenue 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. Adoption of new accounting standards:

(a) Capital disclosures:

Effective May 1, 2008, the University adopted the CICA Handbook Section 1535, *Capital Disclosures* which establishes standards for disclosing information about an entity's capital and how it is managed. Adoption of these recommendations had no effect on the financial statements for the year ending April 30, 2009, except for the additional note disclosure in note 23.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

3. Adoption of new accounting standards (continued):

(b) Financial instruments:

In December 2006, the CICA issued new accounting standards: Handbook Section 3862, *Financial Instruments - Disclosures* and Handbook Section 3863, *Financial Instruments - Presentation*. These standards were expected to be effective for the University's financial statements for the year ended April 30, 2009. However, in December 2008, the CICA eliminated the requirement for not-for-profit entities to adopt these standards. The University has continued to disclose and present financial instruments under Handbook Section 3861, *Financial Instruments - Disclosure and Presentation* for the year ended April 30, 2009.

4. Future accounting standards:

In September 2008, the CICA issued the following amendments and new accounting standards that will come into effect for the University's fiscal year beginning May 1, 2009:

Amendments to Accounting Standards that Apply Only to Not-for-Profit Organizations

The CICA issued amendments to the existing accounting standards applicable to not-for-profit organizations. The amendments affect the financial statement presentation and disclosure requirements for not-for-profit organizations.

Disclosure of Allocated Expenses by Not-for-Profit Organizations

The CICA issued Section 4470, *Disclosures of Allocated Expenses by Not-For-Profit Organizations*. This new Section establishes disclosure requirements for not-for-profit organizations that report expenses by function and allocate expenses to a number of functions to which the expenses relate. These not-for-profit organizations will be required to disclose additional information regarding their accounting policies adopted for the allocation of expenses among functions, the nature of these expenses, the basis on which the allocations are being made, and the value of the allocations.

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

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

5. Investments:

(a) Carrying value; cost and fair values:

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

	2009		
	Carrying value	Fair value	Cost
Bonds	\$ 5,642	\$ 5,924	\$ 5,642
Marketable securities	184,600	184,600	210,907
	<u>\$ 190,242</u>	<u>\$ 190,524</u>	<u>\$ 216,549</u>
	2008		
	Carrying value	Fair value	Cost
Bonds	\$ 5,157	\$ 5,678	\$ 5,157
Marketable securities	236,289	236,289	201,348
	<u>\$ 241,446</u>	<u>\$ 241,967</u>	<u>\$ 206,505</u>

The carrying value of bonds is amortized cost and the carrying value of marketable securities is fair value.

(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:

	2009 Carrying value	2008 Carrying value
Endowments	\$ 182,965	\$ 234,086
Centre for Research in Particle Physics	165	277
Residence sinking fund	5,642	5,157
Parker loans for students	970	1,318
NWRC Capital renewal	450	556
Sprott Student Investment Fund	50	52
	<u>\$ 190,242</u>	<u>\$ 241,446</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

5. Investments (continued):

(c) Investment income:

Investment income earned is reported as follows:

	2009	2008
Income earned on endowments	\$ 2,370	\$ 6,424
Income earned on restricted investments	65	320
Income earned on unrestricted investments	4,466	4,797
Income earned on residence sinking fund investments	486	444
Total investment income earned	7,387	11,985
Add (deduct) restricted amounts recognized (deferred)	1,564	(920)
Add amounts distributed from endowment in excess of annual income earned on endowments	6,109	1,957
Total investment income recognized as revenue	<u>\$ 15,060</u>	<u>\$ 13,022</u>

6. 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:

	2009	2008
Minimum lease payments receivable	\$ 23,400	\$ 24,700
Unearned financing revenue	(9,210)	(10,112)
	14,190	14,588
Less current portion of net investment in lease	(425)	(398)
Net investment in lease	<u>\$ 13,765</u>	<u>\$ 14,190</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

6. Net investment in lease (continued):

At April 30, 2009, future minimum lease payments receivable under the direct financing lease are as follows:

2010	\$	1,300
2011		1,300
2012		1,300
2013		1,300
2014		1,300
Thereafter		16,900
	\$	<u>23,400</u>

7. Capital assets:

Capital assets consist of the following:

	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
Land	\$ 6,706	\$ —	\$ 6,706	\$ 6,709
Buildings	351,617	124,200	227,417	224,623
Building improvements	45,775	2,194	43,581	29,077
Equipment and furniture	96,291	42,426	53,865	49,347
Computer equipment	12,283	9,373	2,910	3,009
Software	12,416	11,878	538	692
Automobiles	471	317	154	224
Library holdings	33,941	21,874	12,067	12,309
Art collection	22,700	—	22,700	22,355
	<u>\$ 582,200</u>	<u>\$ 212,262</u>	<u>\$ 369,938</u>	<u>\$ 348,345</u>

Included in buildings is \$32,946,000 (2008 - \$27,098,000) 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, 2008 amounted to \$539,421,000 and \$191,076,000 respectively.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009
(Tabular amounts in thousands of dollars)

8. Art collection:

The University has an art collection comprising approximately 27,770 pieces of art. In 2009, there were additions of donated pieces of art at an appraised value of \$345,000 (2008 - \$516,000).

9. 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:

	2009	2008
Research	\$ 23,605	\$ 27,026
Grants	13,887	15,658
Student aid	5,908	7,494
Donations	4,167	4,663
Other	3,703	3,357
	<u>\$ 51,270</u>	<u>\$ 58,198</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 deferred revenue includes deposits and prepayments on contracts.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

10. Long-term debt:

As at April 30, 2009, the University has principal outstanding of \$76,181,000 (2008 - \$63,116,000) under long-term 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	\$ 293
Grenville and Russell Residences	2017	5.375%	79	485
Glengarry Residence	2020	6.375%	176	1,363
Stormont-Dundas Residence	2010	10.360%	1,222	11,800
				13,941
Loans payable:				
Leeds Residence	2012	6.724%	1,607	16,418
Prescott Residence	2013	6.299%	1,520	17,000
Frontenac Residence	2018	4.560%	846	14,634
NWRC loan	2028	6.460%	1,331	14,188
				62,240
				76,181
Less current portion of long-term debt				13,611
				\$ 62,570

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:

Principal repayments under the mortgage and loan agreements are as follows:

2010	\$ 13,611
2011	1,931
2012	2,057
2013	2,171
2014	2,247
Thereafter	54,164
	<u>\$ 76,181</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

10. 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 \$69,758,000 of floating rate debt for fixed rate debt ranging from 4.560% to 6.724%. The related derivative agreements are in place until the maturity of the debts in 2012, 2013, 2018 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 \$14,412,000 (2008 - \$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 expenses.

11. 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:

	2009	2008
Balance, beginning of year	\$ 131,891	\$ 132,849
Less amortization of deferred capital contributions	(9,253)	(9,486)
Add capital contributions received:		
Grants for equipment and buildings	16,804	7,540
Donated assets	312	988
	17,116	8,528
Balance, end of year	<u>\$ 139,754</u>	<u>\$ 131,891</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

12. Internally restricted net assets:

	Balance, beginning of year	Change in year	Balance, end of year
Appropriations	\$ 92,437	\$ 6,581	\$ 99,018
Research	13,701	1,211	14,912
Enterprise	2,481	439	2,920
Scholarships	6	—	6
	<u>\$ 108,625</u>	<u>\$ 8,231</u>	<u>\$ 116,856</u>

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.

13. Investment in capital assets:

The investment in capital assets consists of the following:

	2009	2008
Capital assets	\$ 369,938	\$ 348,345
Less amounts financed by:		
Deferred capital contributions	(139,754)	(131,891)
Mortgages payable (net of residence sinking fund)	(2,359)	(3,051)
Loans payable (Leeds, Prescott, Frontenac buildings)	(48,052)	(34,379)
Other short-term financing	(39,161)	(45,129)
	<u>\$ 140,612</u>	<u>\$ 133,895</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

13. Investment in capital assets (continued):

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

	2009	2008
Capital assets additions:		
Total additions	\$ 42,779	\$ 33,298
Less:		
Contributions to art collection	(345)	(516)
Donated assets	(312)	(988)
Additions financed with grants	(16,804)	(7,540)
	<u>25,318</u>	<u>24,254</u>
Financing:		
Mortgage payable	207	196
Increase in residence sinking fund	485	445
Loans payable	(13,673)	875
Other short-term financing	5,968	(1,261)
	<u>(7,013)</u>	<u>255</u>
Amortization of deferred capital contributions	9,253	9,486
Amortization of capital assets	(21,186)	(21,640)
	<u>(11,933)</u>	<u>(12,154)</u>
Net change in investment in capital assets	<u>\$ 6,372</u>	<u>\$ 12,355</u>

14. 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, 2009

(Tabular amounts in thousands of dollars)

14. Endowments (continued):

Investment income earned is distributed at a rate of 4.5% (2008 - 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 accumulated in the endowment fund for future distribution and to maintain capital.

	<u>Externally endowed</u>	<u>Board designated</u>	<u>Total 2009</u>	<u>Total 2008</u>
Donations and bequests	\$ 9,074	\$ (659)	\$ 8,415	\$ 5,866
Realized gain on sale of investments	6,530	13	6,543	11,245
Investment income	2,361	561	2,922	5,124
Income distributions	(8,479)	(79)	(8,558)	(8,462)
	<u>9,486</u>	<u>(164)</u>	<u>9,322</u>	<u>13,773</u>
Unrealized loss on investments	(60,229)	(547)	(60,776)	(13,847)
	<u>(50,743)</u>	<u>(711)</u>	<u>(51,454)</u>	<u>(74)</u>
Net change in year				
Fund balance, beginning of year	229,415	1,920	231,335	182,575
Accounting change for financial instruments (note 3)	—	—	—	48,834
	<u>229,415</u>	<u>1,920</u>	<u>231,335</u>	<u>231,409</u>
Fund balance, end of year	<u>\$ 178,672</u>	<u>\$ 1,209</u>	<u>179,881</u>	<u>\$ 231,335</u>

	<u>2009</u>	<u>2008</u>
Endowment principal	\$ 97,565	\$ 89,510
Undistributed investment income	143,092	155,672
Unrealized loss	(60,776)	(13,847)
Endowment balance	<u>\$ 179,881</u>	<u>\$ 231,335</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

15. 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, 2009.

At April 30, 2009, the University's future employee benefits liability and accrued benefit obligations are as follows:

	<u>2009</u>	<u>2008</u>
Accrued benefit obligation	\$ 64,134	\$ 91,807
Unamortized past service costs	(696)	(835)
Unamortized net actuarial gain/(loss)	28,570	(5,510)
Employee future benefits liability	<u>\$ 92,008</u>	<u>\$ 85,462</u>

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:

	<u>Post-retirement benefits plan</u>	<u>Post-employment benefits plan</u>
Discount rate	8.75%	7.75%
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 8.00%	4.50% to 8.00%

Included in the consolidated statement of operations is an annual expense in the amount of \$9,868,000 (2008 - \$11,254,000) 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 2009, the University contributed \$3,322,000 (2008 - \$3,110,000) to cover pay-as-you-go disbursements incurred during the year for these employee future benefits.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

15. Employee future benefits (continued):

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 2009.

	Increase	Decrease
Net benefit cost	\$ 1,732	\$ 1,313
Accrued benefit obligation	6,194	5,115

16. 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.

Upon retirement, plan members will receive payment out of their money purchase plan, which is supplemented from a minimum guarantee fund if the money purchase plan does not provide the minimum benefit.

The reconciliation of the funded status of the plan to the amounts recorded in the financial statements is as follows:

	Pension Benefit Plan 2009
Accrued benefit obligation	\$ 676,825
Fair value of plan assets	622,612
Plan deficit	(54,213)
Balance of unamortized actuarial loss	54,213
Accrued benefit liability	\$ —

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

16. Pension plan and pension plan liability (continued):

The principal actuarial assumptions adopted in measuring the University's employee future benefits obligation are as follows:

	2009
Pension benefit plans	
Discount rate	8.3%
Rate of compensation increases	5%
Expected long-term rate of return on plan assets	7.5%

The University contributed \$11,285,000 (2008 - \$11,246,000) to the pension plan during the year and this contribution is included in the consolidated statement of operations.

17. Contingent liabilities and commitments:

At April 30, 2009, commitments for future acquisitions, construction and renovations amounted to approximately \$5,775,000 (2008 - \$27,629,000).

Letters of credit totaling \$7,935,000 (2008 - \$7,892,000) were issued on behalf of the University at year-end.

18. 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.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

18. Financial instruments (continued):

(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:

	2009		2008	
	Fair value	Carrying value	Fair value	Carrying value
Investments	\$ 190,524	\$ 190,242	\$ 241,967	\$ 241,446
Loans payable	74,734	62,240	55,738	48,968
Mortgages payable	14,630	13,941	14,675	14,148
Interest rate swaps	13,417	13,417	8,137	8,137

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.

19. Net change in non-cash operating working capital:

	2009	2008
Decrease (increase) in accounts receivable	\$ 15,827	\$ (19,491)
Increase in prepaid expenses	(78)	(965)
Increase (decrease) in accounts payable and accrued liabilities	(6,816)	2,807
Increase (decrease) in deferred revenue	(6,928)	15,085
Increase (decrease) in accrued vacation pay	119	(441)
	<u>\$ 2,124</u>	<u>\$ (3,005)</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

20. 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.

21. Other revenue:

	<u>2009</u>	<u>2008</u>
Rental	\$ 7,973	\$ 7,848
Registration and membership	5,504	4,800
Commission and sponsorship	6,206	6,872
Medical insurance recoveries	1,521	1,310
Salary and benefit recoveries	1,567	1,127
Miscellaneous	6,728	6,295
	<u>\$ 29,499</u>	<u>\$ 28,252</u>

22. Other expenses:

	<u>2009</u>	<u>2008</u>
Equipment rental	\$ 3,434	\$ 3,029
Property taxes and insurance	2,561	2,528
Minor repair and upkeep	2,490	2,488
Banking and bad debts	1,734	2,258
Advertising and promotion	2,255	2,084
Communication	1,817	1,886
Miscellaneous	15,079	4,932
	<u>\$ 29,370</u>	<u>\$ 19,205</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2009

(Tabular amounts in thousands of dollars)

23. Capital disclosures:

(a) Capital:

The University considers its operating capital to consist of long-term debt, net assets invested in capital assets, internally restricted net assets and unrestricted net assets. The University's overall objective for its capital is to fund capital assets, future projects and ongoing operations. The University manages its capital by appropriating amounts to internally restricted net assets for anticipated future projects, contingencies and other capital requirements. These allocations are disclosed in note 21(b).

The University also considers its endowments, as disclosed in notes 5(b) and 14, as part of its capital. The University's objective with regards to endowments is to grow the endowment principal such that it preserves the original capital investment and provides the prescribed distribution rate per note 14.

Under the direction of its Board of Governors, the University is required to reduce its accumulated operating deficit by \$1,000,000 annually.

The University is not subject to any other externally imposed capital requirements and its approach to capital management remains unchanged from the prior year.

(b) Internally restricted net assets:

Internally restricted net assets are funds restricted by the University for future commitments and projects to improve and invest in the University's campus facilities, information systems, equipment, programs and student aid.

Internally restricted assets consist of the following:

	2009	2008
Appropriations	\$ 31,510	\$ 44,098
Specific reserves:		
Academic buildings	36,017	18,561
Pension liability reserve	14,902	14,902
Research initiatives	14,912	13,701
Ancillary reserve fund	8,877	4,821
Entrepreneurial initiatives	2,920	2,481
Student aid funds	1,683	354
Other projects and initiatives	6,035	9,707
	<u>\$ 116,856</u>	<u>\$ 108,625</u>

CARLETON UNIVERSITY

Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2009
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	Graphic Services	Health Services
Revenues	\$ 8,683	\$ 1,290	\$ 1,719	\$ 2,641
Expenses	8,405	1,396	1,853	2,979
Excess (deficiency) of revenues over expenses	278	(106)	(134)	(338)
Net assets, beginning of year	(760)	—	—	(195)
Transfer from (to) non-ancillary unrestricted net assets	209	—	(59)	337
Appropriated to internally restricted net assets	—	—	—	—
Return of funds from internally restricted net assets	—	106	193	—
Unrestricted net assets, end of year	\$ (273)	\$ —	\$ —	\$ (196)
Internally restricted net assets				
Net assets, beginning of year	\$ —	\$ 312	\$ 347	\$ —
Appropriated from unrestricted net assets	—	—	—	—
Return of funds to unrestricted net assets	—	(106)	(193)	—
Net assets, end of year	\$ —	\$ 206	\$ 154	\$ —

	Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2009	Total 2008
\$	2,682	\$ 3,719	\$ 20,972	\$ 494	\$ 178	\$ 42,378	\$ 37,955
	2,023	2,447	16,780	512	51	36,446	33,755
	659	1,272	4,192	(18)	127	5,932	4,200
	298	–	–	(680)	–	(1,337)	(1,025)
	(156)	(175)	(1,352)	724	265	(207)	(6,219)
	–	(1,097)	(2,840)	(26)	(392)	(4,355)	(1,311)
	–	–	–	–	–	299	3,018
\$	801	\$ –	\$ –	\$ –	\$ –	\$ 332	\$ (1,337)
\$	–	\$ 2,646	\$ 1,454	\$ –	\$ 62	\$ 4,821	\$ 6,528
	–	1,097	2,840	26	392	4,355	1,311
	–	–	–	–	–	(299)	(3,018)
\$	–	\$ 3,743	\$ 4,294	\$ 26	\$ 454	\$ 8,877	\$ 4,821

CARLETON UNIVERSITY

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

(in thousands of dollars)

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:

	<u>2009</u>	<u>2008</u>
Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2009		
Fund balance at beginning of year	\$ 17,850	\$ 17,823
Cash donations received	–	27
Funds re-allocated to OTSS	(934)	–
Fund balance at end of year	<u>\$ 16,916</u>	<u>\$ 17,850</u>

Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2009

Balance, beginning of year	\$ 2,450	\$ 2,592
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	2,527	2,789
Bursaries awarded (total number: 3,093)	(3,382)	(2,931)
Balance, end of year	<u>\$ 1,595</u>	<u>\$ 2,450</u>

The market value of the endowment as at April 30, 2009 was \$46,744,747 (2008 - \$67,326,000).

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)

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:

	<u>2009</u>	<u>2008</u>
Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2009		
Fund balance at beginning of year	\$ 4,580	\$ 4,566
Cash donations received	–	14
Funds re-allocated to OTSS	(29)	–
Fund balance at end of year	<u>\$ 4,551</u>	<u>\$ 4,580</u>

Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2009

Balance, beginning of year	\$ 244	\$ 254
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	284	279
Bursaries awarded (total number: 236)	(405)	(289)
Balance, end of year	<u>\$ 123</u>	<u>\$ 244</u>

The market value of the endowment as at April 30, 2009 was \$5,118,487 (2008 - \$7,013,000).

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)

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, 2008 to March 31, 2009 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:

2009

Schedule of donations received between April 1, 2008 and March 31, 2009

Cash donations matched between April 1, 2008 and March 31, 2009	\$ 744
Unmatched cash donations (received between April 1, 2008 and March 31, 2009)	–
Total cash donations	\$ 744

Schedule of Changes in Endowment Fund Balance for the period April 1, 2008 to March 31, 2009

Balance, beginning of year	\$ 10,578
Eligible cash donations received between April 1, 2008 and March 31, 2009 in compliance with the November 2005 Program Guidelines and Reporting Requirements	744
Matching funds received/receivable from MTCU in 2008-09	744
Cash donations ineligible for match for the period between April 1, 2008 and March 31, 2009	965
Fund balance at end of year	\$ 13,031

Schedule of Changes in Expendable Funds Available for Awards for the period April 1, 2008 to March 31, 2009

Balance, beginning of year	\$ 251
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	612
Cash donations (received between April 1, 2008 and March 31, 2009)	3
Bursaries awarded (total number: 294)	(370)
Balance, end of year	\$ 496