

Consolidated Financial Statements of

**CARLETON UNIVERSITY**

Year ended April 30, 2011

# CARLETON UNIVERSITY

## Consolidated Financial Statements

Year ended April 30, 2011

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Governors of Carleton University

We have audited the accompanying consolidated financial statements of Carleton University, which comprise the consolidated statement of financial position as at April 30, 2011, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Carleton University as at April 30, 2011, and its consolidated results of operations, changes in net assets and its consolidated 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 consolidated financial statements of Carleton 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 consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that underlines the text.

Chartered Accountants, Licensed Public Accountants

September 27, 2011

Ottawa, Canada

# CARLETON UNIVERSITY

## Consolidated Statement of Financial Position

April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 162,367	\$ 131,093
Accounts receivable	26,787	37,215
Prepaid expenses	3,040	3,184
Current portion of net investment in lease (note 4)	487	454
	<u>192,681</u>	<u>171,946</u>
Investments (note 3)	274,069	220,308
Net investment in lease (note 4)	12,823	13,311
Capital assets (notes 5 and 6)	451,554	398,739
	<u>\$ 931,127</u>	<u>\$ 804,304</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 49,657	\$ 31,909
Deferred revenue (note 7)	46,576	48,277
Accrued vacation pay	6,762	6,935
Current portion of long-term debt (note 8)	2,057	1,931
	<u>105,052</u>	<u>89,052</u>
Long-term debt (note 8)	58,584	60,641
Interest rate swaps (note 8(c))	10,837	9,475
Deferred capital contributions (note 9)	196,396	169,268
Employee future benefits liability (note 10)	111,984	102,794
Net assets:		
Unrestricted	(120,481)	(113,969)
Internally restricted (note 11)	159,254	138,337
Investment in capital assets (note 12)	152,404	143,540
Endowments (note 13)	267,934	214,641
Interest rate swaps (note 8(c))	(10,837)	(9,475)
	<u>448,274</u>	<u>373,074</u>
Contingent liabilities and commitments (notes 14 and 15)	<u>\$ 931,127</u>	<u>\$ 804,304</u>

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Operations

Year ended April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	2011	2010
Revenue:		
Government grants for general operations	\$ 152,899	\$ 149,590
Fees	182,340	166,195
Research grants and contracts	54,525	53,596
Sales and services	21,183	20,732
Donations	2,673	5,747
Investment income	10,648	10,653
Amortization of deferred capital contributions (note 9)	11,308	10,184
Other (note 16)	17,922	17,776
	<u>453,498</u>	<u>434,473</u>
Expenses:		
Salaries	221,018	220,309
Benefits	42,786	34,016
Supplies	8,691	9,915
Minor equipment and furnishings	7,486	8,083
Externally contracted services and fees	15,441	15,493
Scholarships and bursaries	36,979	31,699
Utilities	10,834	10,527
Travel	9,338	8,985
Renovations	7,209	11,758
Interest	4,233	5,042
Amortization of capital assets	24,162	22,172
Employee future benefits (note 10)	12,852	14,294
Other expenses (note 17)	29,349	26,337
	<u>430,378</u>	<u>418,630</u>
Excess of revenue over expenses	<u>\$ 23,120</u>	<u>\$ 15,843</u>

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Changes in Net Assets

Year ended April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	Unrestricted	Internally restricted (note 11)	Investment in capital assets (note 12)	Endow- ments (note 13)	Interest rate swaps (note 8(c))	Total 2011	Total 2010
Net assets, beginning of year	\$(113,969)	\$ 138,337	\$ 143,540	\$ 214,641	\$ (9,475)	\$ 373,074	\$ 316,858
Excess of revenue over expenses	23,120	—	—	—	—	23,120	15,843
Internally imposed restrictions	(20,924)	20,917	—	7	—	—	—
Net change in investments in capital assets (note 12)	(8,708)	—	8,708	—	—	—	—
Contributions to art collection (note 6)	—	—	156	—	—	156	629
Endowment contributions and investment income (note 13)	—	—	—	3,123	—	3,123	2,317
Unrealized gains on endowment investments (note 13)	—	—	—	50,163	—	50,163	32,490
Change in fair value of interest rate swaps	—	—	—	—	(1,362)	(1,362)	4,937
<b>Net assets, end of year</b>	<b>\$(120,481)</b>	<b>\$ 159,254</b>	<b>\$ 152,404</b>	<b>\$ 267,934</b>	<b>\$ (10,837)</b>	<b>\$ 448,274</b>	<b>\$ 373,074</b>
Details of year-end balance:							
Operating (note 11(a))	\$ (3,656)	\$ —	\$ —	\$ —	\$ —	\$ (3,656)	\$ (5,991)
Plant	373	—	—	—	—	373	542
Ancillary	1,548	—	—	—	—	1,548	1,209
Provision for vacation pay	(6,762)	—	—	—	—	(6,762)	(6,935)
Provision for employee future benefits obligation	(111,984)	—	—	—	—	(111,984)	(102,794)
Appropriations	—	141,421	—	—	—	141,421	120,745
Research	—	14,764	—	—	—	14,764	14,474
Enterprise	—	3,060	—	—	—	3,060	3,111
Scholarships	—	9	—	—	—	9	7
Capital assets	—	—	152,404	—	—	152,404	143,540
Endowment	—	—	—	267,934	—	267,934	214,641
Interest rate swaps	—	—	—	—	(10,837)	(10,837)	(9,475)
	<b>\$(120,481)</b>	<b>\$ 159,254</b>	<b>\$ 152,404</b>	<b>\$ 267,934</b>	<b>\$ (10,837)</b>	<b>\$ 448,274</b>	<b>\$ 373,074</b>

See accompanying notes to consolidated financial statements.

# CARLETON UNIVERSITY

## Consolidated Statement of Cash Flows

Year ended April 30, 2011, with comparative figures for 2010  
(in thousands of dollars)

	2011	2010
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 23,120	\$ 15,843
Add (deduct) non-cash items:		
Increase in employee future benefits liability	9,190	10,786
Amortization of capital assets	24,162	22,172
Amortization of deferred capital contributions	(11,308)	(10,184)
Net change in other non-cash operating working capital (note 18)	<u>26,446</u>	<u>(5,406)</u>
Net cash provided by operating activities	71,610	33,211
Financing activities:		
Decrease in mortgages payable (note 8(a))	(233)	(12,019)
Decrease in loans payable (note 8(a))	(1,698)	(1,590)
Net withdrawals of investments	–	2,424
Capital contributions received (note 9)	38,436	39,698
Contributions to art collection	156	629
Endowment contributions and investment income	<u>3,123</u>	<u>2,317</u>
Net cash used in financing activities	39,784	31,459
Investing activities:		
Net acquisitions of investments	(3,598)	–
Decrease in net investment in lease	455	425
Capital asset additions	<u>(76,977)</u>	<u>(50,973)</u>
Net cash used in investing activities	(80,120)	(50,548)
Increase in cash and cash equivalents	<u>31,274</u>	<u>14,122</u>
Cash and cash equivalents, beginning of year	131,093	116,971
Cash and cash equivalents, end of year	<u>\$ 162,367</u>	<u>\$ 131,093</u>
Consisting of:		
Cash on deposit	\$ 4,478	\$ 1,679
Outstanding cheques	(5,463)	(3,497)
Money market fund	163,352	132,911
	<u>\$ 162,367</u>	<u>\$ 131,093</u>
Interest paid	<u>\$ 4,233</u>	<u>\$ 5,042</u>

See accompanying notes to consolidated financial statements.



# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements

Year ended April 30, 2011

(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 physics. 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, including the following accounting policies:

### (a) Basis of presentation:

The University uses the deferral method of accounting for contributions for not-for-profit organizations. These financial statements do not reflect the assets, liabilities and results of operations of the various student organizations at the University, or the Carleton University Foundation (U.S.).

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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

### (b) Cash and cash equivalents:

Cash and cash equivalents include deposits with financial institutions that can be withdrawn without prior notice or penalty and short-term deposits with an original maturity of ninety days or less.

### (c) Financial instruments:

#### (i) 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.

The Parker loans for students, National Wildlife Research Centre (NWRC) Capital renewal and Sprott Student Investment Fund investments are designated as held-for-trading and they are recorded at fair value. 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.

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.

#### (ii) 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.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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

### (c) Financial instruments (continued):

#### (iii) Other financial instruments:

The University has classified accounts receivable as loans and receivables and accounts payable and accrued liabilities, accrued vacation pay and long-term debt as other liabilities. Upon initial recognition, these financial assets and liabilities are measured at fair value. Subsequent to initial recognition, these financial assets and liabilities are measured at amortized cost using the effective interest method of amortization.

### (d) 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
Library holdings	10 years

Construction costs are capitalized as work progresses and amortization commences in the period that the asset is available for use.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to estimate undiscounted cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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

(e) 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.

(f) 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.

(g) Recognition of revenue and other contributions:

(i) 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.

(ii) 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.

(iii) 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.

(iv) Student fees are recognized as revenue in the period that the courses and seminars are held. Sales revenue is recognized at point of sale.

(v) Contract revenue is recognized as the service is provided.

(h) 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.

(i) 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.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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

### (j) 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.

### (k) Employee pension plan:

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits. The University accrues its obligations under these benefit plans and the related costs, net of plan assets. The costs and the obligations of the Plan are actuarially determined.

The benefit plan expense for the year consists of the current service cost, the interest cost, the expected return on plan assets, and the amortization of actuarial losses and gains. The calculation of the expected return on assets for the year is based on the fair value of plan assets.

The excess of the net actuarial loss or gain over 10% at the greater of the fair value of assets and the accrued benefit obligation is amortized over the average remaining service life of plan members.

### (l) 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.

Significant management estimates include assumptions used in determining the fair values of investments and interest rate swaps, and determining the employee future benefits liability.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

### 3. Investments:

(a) Carrying value, cost and fair values:

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

	2011		2010	
	Fair value	Cost	Fair value	Cost
Marketable securities	\$ 274,069	\$ 211,992	\$ 220,308	\$ 208,677

The carrying value of marketable securities is fair value.

(b) Purpose:

Investments held by the University include funds, which are permanently endowed or restricted in use as follows:

	2011	2010
	Carrying value	Carrying value
Endowments	\$ 271,498	\$ 218,538
Parker loans for students	1,344	1,153
NWRC Capital renewal	665	558
Sprott Student Investment Fund	562	59
	<u>\$ 274,069</u>	<u>\$ 220,308</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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#### 4. Net investment in lease:

Carleton University has entered into an agreement with Environment Canada under which Carleton University built the National Wildlife Research Centre (NWRC) 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:

	2011	2010
Minimum lease payments receivable	\$ 20,800	\$ 22,100
Unearned financing revenue	(7,490)	(8,335)
	13,310	13,765
Less current portion of net investment in lease	(487)	(454)
Net investment in lease	<u>\$ 12,823</u>	<u>\$ 13,311</u>

At April 30, 2011, future minimum lease payments receivable under the direct financing lease are as follows:

2011-12	\$ 1,300
2012-13	1,300
2013-14	1,300
2014-15	1,300
2015-16	1,300
Thereafter	14,300
	<u>\$ 20,800</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

## 5. Capital assets:

Capital assets consist of the following:

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Land	\$ 6,706	\$ –	\$ 6,706	\$ 6,706
Buildings	433,489	139,219	294,270	246,856
Building improvements	65,993	5,973	60,020	51,945
Equipment and furniture	113,804	62,032	51,772	54,650
Computer equipment	15,536	12,032	3,504	3,242
Software	12,483	12,303	180	293
Automobiles	537	436	101	105
Library holdings	38,117	26,601	11,516	11,613
Art collection	23,485	–	23,485	23,329
	<u>\$ 710,150</u>	<u>\$ 258,596</u>	<u>\$ 451,554</u>	<u>\$ 398,739</u>

Included in buildings is \$34,032,000 (2010 - \$45,833,000) 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, 2010 amounted to \$633,173,000 and \$234,434,000 respectively.

## 6. Art collection:

The University has an art collection comprising approximately 28,730 pieces of art. In 2011, there were additions of donated pieces of art at an appraised value of \$156,000 (2010 - \$629,000).



# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## 7. 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:

	2011	2010
Research	\$ 27,222	\$ 26,781
Grants	1,589	6,463
Student aid	5,077	5,874
Donations	7,274	4,953
Other	5,414	4,206
	<u>\$ 46,576</u>	<u>\$ 48,277</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, 2011

(Tabular amounts in thousands of dollars)

## 8. Long-term debt:

As at April 30, 2011, the University has principal outstanding of \$60,641,000 (2010 - \$62,572,000) under long-term mortgages and loans.

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

	Maturity	Interest rate	Annual payment	2011 Principal outstanding	2010 Principal outstanding
Mortgages payable:					
Lanark and Renfrew Residences and University Commons	2013	5.375%	\$ 86	\$ 144	\$ 221
Grenville and Russell Residences	2017	5.375%	79	374	431
Glengarry Residence	2020	6.375%	176	1,171	1,270
				1,689	1,922
Loans payable:					
Leeds Residence	2012	6.724%	1,607	15,348	15,901
Prescott Residence	2013	6.299%	1,520	16,046	16,539
Frontenac Residence	2018	4.560%	840	14,256	14,451
NWRC loan	2028	6.460%	1,331	13,302	13,759
				58,952	60,650
				60,641	62,572
Less current portion of long-term debt				2,057	1,931
				\$ 58,584	\$ 60,641

Annual payment amounts include principal and interest.

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

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

2011-12	\$ 2,057
2012-13	2,171
2013-14	2,247
2014-15	2,395
2015-16	2,608
Thereafter	49,163
	<u>\$ 60,641</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## 8. Long-term debt (continued):

### (c) 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 \$10,837,000 (2010 - \$9,475,000) 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.

## 9. 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:

	2011	2010
Balance, beginning of year	\$ 169,268	\$ 139,754
Less amortization of deferred capital contributions	(11,308)	(10,184)
Add capital contributions received:		
Grants for equipment and buildings	36,917	39,246
Donated assets	1,519	452
	<u>38,436</u>	<u>39,698</u>
Balance, end of year	<u>\$ 196,396</u>	<u>\$ 169,268</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

## 10. Employee future benefits:

### (a) Post-employment and post-retirement benefit plans:

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 valuation of employee future benefits was completed as at May 1, 2009.

### (i) Accrued benefit liability:

At April 30, 2011, the University's future employee benefits liability and accrued benefit obligations are as follows:

	<u>2011</u>	<u>2010</u>
Accrued benefit obligation, beginning of year	\$ 107,686	\$ 97,218
Unamortized past service costs	(800)	(511)
Unamortized net actuarial loss	(5,604)	(1,958)
Accrued benefit obligation, end of year	<u>\$ 101,282</u>	<u>\$ 94,749</u>

Similar to many non-pension benefit plans in Canada, the University's plans are not pre-funded, resulting in plan deficits equal to the accrued benefit obligation.

The amount of \$10,195,000 (2010 - \$6,249,000) relating to non-pension employee future benefits is included in employee future benefits expense in the consolidated statement of operations. This expense includes the current service cost of employee benefits for the year and the interest cost for the unfunded accrued benefit obligation. During 2011, the University contributed \$3,662,000 (2010 - \$3,508,000) to cover pay-as-you-go disbursements incurred during the year for these employee future benefits.

### (ii) Assumptions:

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

	<u>2011</u>	<u>2010</u>
Discount rate	5.25% - 5.75%	5.50% - 6.00%
Salary escalation	4.00%	2.50%
Dental benefits escalation	4.50%	4.50%
Drugs benefits escalation	4.50% to 9.00%	4.50% to 9.00%
Hospital benefits escalation	4.50%	4.50%

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## 10. Employee future benefits (continued):

### (a) Post-employment and post-retirement benefit plans (continued):

#### (iii) 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 2011.

	Increase	Decrease
Net benefit cost	\$ 1,699	\$ 1,298
Accrued benefit obligation	15,795	12,386

### (b) Pension plan and pension plan liability:

The University contributes to the Carleton University Retirement Plan which is a defined contribution pension plan with a defined benefit minimum guarantee, covering substantially all full-time employees of the University.

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 pension benefit.

An actuarial valuation of the Plan as of July 1, 2010 determined that the Plan had a \$47,571,000 unfunded going-concern liability and an unfunded \$59,132,000 solvency liability as at July 1, 2010. 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. Generally the solvency valuation is to be repaid over a period not to exceed 5 years. However, there have been a number of changes to the Ontario Pension Benefits Act and Regulations that have an impact on the funding of the Plan. Specifically, for approved plans, solvency payments may be suspended for the four years following July 1, 2010. Instead, an annual interest charge on the solvency deficiency must be contributed to the Plan. Carleton University applied for and was determined to be an approved plan. As such, the annual special payment required towards the combined going concern and solvency deficiencies is \$7,035,000. The next actuarial valuation for funding purposes is required July 1, 2013. That valuation will determine the minimum funding requirement commencing July 1, 2014.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

## 10. Employee future benefits (continued):

### (b) Pension plan and pension plan liability (continued):

An actuarial valuation for accounting purposes was performed as at April 30, 2011, the measurement date for financial reporting purposes.

#### (i) Accrued benefit liability:

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

	2011	2010
Accrued benefit obligation	\$ 912,825	\$ 864,959
Less: fair value of Plan assets	788,710	733,739
Plan deficit	124,115	131,220
Unamortized net actuarial loss	(113,413)	(123,175)
Accrued benefit liability	\$ 10,702	\$ 8,045

The accrued benefit liability balance is included in the employee future benefits liability on the consolidated statement of financial position. The amount of \$2,657,000 (2010 - \$8,045,000) relating to the change in the pension plan accrued benefit liability is included in the employee future benefits expense in the consolidated statement of operations.

The University contributed \$11,916,000 (2010 - \$12,443,000) to the pension plan during the year and this contribution is included in benefits expense in the consolidated statement of operations.

#### (ii) Plan assets:

The percentage of the Plan assets by major category are as follows:

	2011	2010
Canadian equity securities	30%	30%
Non-Canadian equity securities	35%	35%
Fixed income debt securities	25%	25%
High yield debt instruments	5%	5%
Global infrastructure instruments	5%	5%

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## 10. Employee future benefits (continued):

(b) Pension plan and pension plan liability (continued):

(iii) Assumptions:

The principal actuarial assumptions adopted in measuring the University's accrued benefit obligation of the Plan are as follows:

	2011	2010
Pension benefit plans:		
Discount rate, benefit cost	5.75%	6%
Discount rate, benefit obligation	6%	8.3%
Rate of compensation increases	4.5%	4.5%
Expected long-term rate of return on plan assets	7.5%	7.5%

## 11. Capital disclosures:

(a) Capital management:

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 11(b).

The University also considers its endowments, as disclosed in notes 3(b) and 13, 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 described in note 13.

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

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## 11. Capital disclosures (continued):

### (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 net assets have been designated for the following purposes:

	2011	2010
General appropriations	\$ 42,867	\$ 35,817
Specific reserves:		
Capital reserve	43,792	37,124
Pension liability reserve	36,705	28,976
Research initiatives	14,764	14,474
Ancillary reserve fund	7,684	12,190
Entrepreneurial initiatives	3,060	3,111
Student aid funds	1,789	1,710
Other projects and initiatives	8,593	4,935
	<u>\$ 159,254</u>	<u>\$ 138,337</u>

## 12. Investment in capital assets:

The investment in capital assets consists of the following:

	2011	2010
Capital assets	\$ 451,554	\$ 398,739
Less amounts financed by:		
Deferred capital contributions	(196,396)	(169,268)
Mortgages payable	(1,689)	(1,922)
Loans payable (Leeds, Prescott, Frontenac residences)	(45,650)	(46,891)
Other short-term financing	(55,415)	(37,118)
	<u>\$ 152,404</u>	<u>\$ 143,540</u>



# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

## 12. Investment in capital assets:

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

	2011	2010
Capital assets additions:		
Total additions	\$ 76,977	\$ 50,973
Less:		
Contributions to art collection	(156)	(629)
Donated assets	(1,519)	(452)
Additions financed with grants	(36,917)	(39,246)
	<u>38,385</u>	<u>10,646</u>
Financing:		
Mortgages payable	233	437
Loans payable	1,241	1,161
Other short-term financing	(18,297)	2,043
	<u>(16,823)</u>	<u>3,641</u>
Amortization of deferred capital contributions	11,308	10,184
Amortization of capital assets	(24,162)	(22,172)
	<u>(12,854)</u>	<u>(11,988)</u>
Net change in investment in capital assets	<u>\$ 8,708</u>	<u>\$ 2,299</u>

## 13. 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, 2011

(Tabular amounts in thousands of dollars)

## 13. Endowments (continued):

Investment income earned on endowed investments is distributed at a rate of 4.0% (2010 - 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 2011</u>	<u>Total 2010</u>
Donations and bequests	\$ 4,444	\$ —	\$ 4,444	\$ 4,989
Realized gains on sale of investments	8,519	118	8,637	2,868
Investment income	94	2	96	4,522
Income distributions	(9,934)	(113)	(10,047)	(10,109)
	<u>3,123</u>	<u>7</u>	<u>3,130</u>	<u>2,270</u>
Unrealized gains on investments	49,476	687	50,163	32,490
	<u>52,599</u>	<u>694</u>	<u>53,293</u>	<u>34,760</u>
Net change in year				
Fund balance, beginning of year	213,341	1,300	214,641	179,881
Fund balance, end of year	<u>\$ 265,940</u>	<u>\$ 1,994</u>	<u>\$ 267,934</u>	<u>\$ 214,641</u>

	<u>2011</u>	<u>2010</u>
Cumulative endowment principal	\$ 106,989	\$ 102,545
Cumulative undistributed investment income	98,902	100,216
Cumulative unrealized gains	62,043	11,880
Endowment balance on endowment investments	<u>\$ 267,934</u>	<u>\$ 214,641</u>

## 14. Contingent liabilities and commitments:

At April 30, 2011, commitments for future acquisitions, construction and renovations amounted to approximately \$35,469,000 (2010 - \$50,816,000).

Letters of credit totaling \$10,068,000 (2010 - \$7,633,000) were issued on behalf of the University at year-end.

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## 15. 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.

## 16. Other revenue:

	2011	2010
Commissions and sponsorships	\$ 7,712	\$ 7,172
Medical insurance recoveries	1,787	1,634
Salary and benefit recoveries	1,861	1,609
Miscellaneous	6,562	7,361
	<u>\$ 17,922</u>	<u>\$ 17,776</u>

## 17. Other expenses:

	2011	2010
Equipment rental	\$ 3,604	\$ 3,339
Property taxes and insurance	2,649	2,697
Minor repair and upkeep	2,669	2,439
Banking and bad debts	2,558	2,536
Advertising and promotion	2,755	2,677
Communication	1,380	2,327
Miscellaneous	13,734	10,322
	<u>\$ 29,349</u>	<u>\$ 26,337</u>

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

	2011	2010
Decrease (increase) in accounts receivable	\$ 10,428	\$ (13,525)
Decrease (increase) in prepaid expenses	144	(368)
Increase in accounts payable and accrued liabilities	17,748	11,887
Decrease in deferred revenue	(1,701)	(2,993)
Decrease in accrued vacation pay	(173)	(407)
	<u>\$ 26,446</u>	<u>\$ (5,406)</u>

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## 19. 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) Interest rate risk:

The University is exposed to interest rate risk with respect to its interest-bearing investments, long-term debt and interest rate swaps as disclosed in the statement of cash flows and notes 3 and 8.

(c) Currency risk:

The University believes that it is not exposed to significant currency risks arising from its financial instruments.

(d) 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:

	2011		2010	
	Fair value	Carrying value	Fair value	Carrying value
Investments	\$ 274,069	\$ 274,069	\$ 220,308	\$ 220,308
Loans payable	71,330	58,954	73,025	60,651
Mortgages payable	1,581	1,689	1,804	1,922
Interest rate swaps	10,837	10,837	9,475	9,475

# CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2011

(Tabular amounts in thousands of dollars)

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## **19. Financial instruments (continued):**

(d) 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, as determined by the financial institution.

## **20. First Generation Pilot Project Initiatives:**

For the period from May 1, 2010 to March 31, 2011, the University's financial statements included expenditures totaling \$169,905 incurred for the purpose of carrying out the First Generation Pilot Project Initiatives. The goal of this project is to increase the awareness of the benefits of post-secondary education of First Generation Students and to increase their participation, retention and graduation rates.

## **21. Comparative figures:**

Certain 2010 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2011.

# CARLETON UNIVERSITY

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

Year ended April 30, 2011  
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	Graphic Services	Health Services
Revenues	\$ 9,261	\$ 1,271	\$ 2,000	\$ 2,944
Expenses	8,583	1,264	1,868	3,151
Excess (deficiency) of revenues over expenses	678	7	132	(207)
Net assets, beginning of year	–	–	(125)	(211)
Transfer from (to) non-ancillary unrestricted net assets	189	–	(87)	314
Appropriated to internally restricted net assets	(867)	(7)	–	–
Return of funds from internally restricted net assets	–	–	–	–
Unrestricted net assets, end of year	\$ –	\$ –	\$ (80)	\$ (104)
<b>Internally restricted net assets</b>				
Net assets, beginning of year	\$ 232	\$ 214	\$ –	\$ –
Appropriated from unrestricted net assets	867	7	–	–
Return of funds to unrestricted net assets	–	–	–	–
Net assets, end of year	\$ 1,099	\$ 221	\$ –	\$ –

	Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2011	Total 2010
\$	2,680	\$ 4,026	\$ 22,253	\$ 511	\$ 332	\$ 45,278	\$ 44,362
	2,493	2,219	19,477	550	–	39,605	37,259
	187	1,807	2,776	(39)	332	5,673	7,103
	1,545	–	–	–	–	1,209	332
	–	(4,175)	(6,831)	–	750	(9,840)	(2,913)
	–	–	–	–	(1,082)	(1,956)	(3,467)
	–	2,368	4,055	39	–	6,462	154
\$	1,732	\$ –	\$ –	\$ –	\$ –	\$ 1,548	\$ 1,209
\$	–	\$ 5,265	\$ 5,213	\$ 104	\$ 1,162	\$ 12,190	\$ 8,877
	–	–	–	–	1,082	1,956	3,467
	–	(2,368)	(4,055)	(39)	–	(6,462)	(154)
\$	–	\$ 2,897	\$ 1,158	\$ 65	\$ 2,244	\$ 7,684	\$ 12,190

# 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:

	<u>2011</u>	<u>2010</u>
<b>Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2011</b>		
Fund balance at beginning of year	\$ 16,916	\$ 16,916
Funds re-allocated to OTSS	–	–
Fund balance at end of year	<u>\$ 16,916</u>	<u>\$ 16,916</u>

### Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2011

Balance, beginning of year	\$ 1,395	\$ 1,595
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	2,296	2,564
Bursaries awarded (total number: 2,411)	(3,036)	(2,764)
Balance, end of year	<u>\$ 655</u>	<u>\$ 1,395</u>

The market value of the endowment as at April 30, 2011 was \$66,283,653 (2010 - \$55,515,531).



# 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:

	2011	2010
<b>Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2011</b>		
Fund balance at beginning of year	\$ 4,551	\$ 4,551
Funds re-allocated to OTSS	–	–
Fund balance at end of year	<u>\$ 4,551</u>	<u>\$ 4,551</u>

## Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2011

Balance, beginning of year	\$ 122	\$ 123
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	255	283
Bursaries awarded (total number: 153)	(190)	(284)
Balance, end of year	<u>\$ 187</u>	<u>\$ 122</u>

The market value of the endowment as at April 30, 2011 was \$7,286,205 (2010 - \$6,102,524).

# 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, 2010 to March 31, 2011 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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	2011	2010
<b>Schedule of donations received between April 1 March 31</b>		
Cash donations matched between April 1 and March 31	\$ 478	\$ 686
Unmatched cash donations (received between April 1 and March 31)	–	–
<b>Total cash donations</b>	<b>\$ 478</b>	<b>\$ 686</b>

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

Balance, beginning of year	\$ 14,441	\$ 13,031
Eligible cash donations received between April 1 and March 31 in compliance with the November 2005 Program Guidelines and Reporting Requirements	478	686
Matching funds received/receivable from MTCU in 2010-11	478	686
Cash donations ineligible for match for the period between April 1 and March 31	28	38
<b>Fund balance at end of year</b>	<b>\$ 15,425</b>	<b>\$ 14,441</b>

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

Balance, beginning of year	\$ 377	\$ 496
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	682	692
Cash donations (received between April 1 and March 31)	1	7
Bursaries awarded (total number: 581)	(615)	(818)
<b>Balance, end of year</b>	<b>\$ 445</b>	<b>\$ 377</b>