

Consolidated Financial Statements of

CARLETON UNIVERSITY

Year ended April 30, 2012

CARLETON UNIVERSITY

Consolidated Financial Statements

Year ended April 30, 2012

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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, 2012, 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, 2012, 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.

Other Matter

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 to 3 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

October 2, 2012

Ottawa, Canada

CARLETON UNIVERSITY

Consolidated Statement of Financial Position

April 30, 2012, with comparative figures for 2011
(in thousands of dollars)

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 183,135	\$ 162,367
Accounts receivable	24,172	26,787
Prepaid expenses	3,535	3,040
Current portion of net investment in lease (note 4)	519	487
	<u>211,361</u>	<u>192,681</u>
Investments (note 3)	217,704	274,069
Net investment in lease (note 4)	12,306	12,823
Capital assets (notes 5 and 6)	481,577	451,554
	<u>\$ 922,948</u>	<u>\$ 931,127</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 29,291	\$ 49,657
Deferred revenue (note 7)	45,363	46,576
Accrued vacation pay	6,858	6,762
Current portion of long-term debt (note 8)	2,822	2,057
	<u>84,334</u>	<u>105,052</u>
Long-term debt (note 8)	87,453	58,584
Interest rate swaps (note 8(c))	15,047	10,837
Deferred capital contributions (note 9)	190,971	196,396
Employee future benefits liability (note 10)	106,171	111,984
Net assets:		
Unrestricted	(104,573)	(120,481)
Internally restricted (note 11)	184,879	159,254
Investment in capital assets (note 12)	157,212	152,404
Endowments (note 13)	216,501	267,934
Interest rate swaps (note 8(c))	(15,047)	(10,837)
	<u>438,972</u>	<u>448,274</u>
Contingent liabilities and commitments (notes 14 and 15)	<u>\$ 922,948</u>	<u>\$ 931,127</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Operations

Year ended April 30, 2012, with comparative figures for 2011
(in thousands of dollars)

	2012	2011
Revenue:		
Government grants for general operations	\$ 159,531	\$ 152,899
Fees	200,551	182,340
Research grants and contracts	52,402	54,525
Sales and services	22,318	21,183
Donations	4,019	2,673
Investment income	12,250	10,648
Amortization of deferred capital contributions (note 9)	13,672	11,308
Other (note 16)	18,680	17,922
	<u>483,423</u>	<u>453,498</u>
Expenses:		
Salaries	231,106	221,018
Benefits	45,727	42,786
Supplies	9,145	8,691
Minor equipment and furnishings	7,274	7,486
Externally contracted services and fees	17,667	15,441
Scholarships and bursaries	37,888	36,979
Utilities	11,683	10,834
Travel	9,428	9,338
Renovations	11,172	7,209
Interest	4,302	4,233
Amortization of capital assets	26,773	24,162
Employee future benefits (note 10)	(1,904)	12,852
Other expenses (note 17)	26,887	29,349
	<u>437,148</u>	<u>430,378</u>
Excess of revenue over expenses	<u>\$ 46,275</u>	<u>\$ 23,120</u>

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2012, with comparative figures for 2011
(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 2012	Total 2011
Net assets, beginning of year	\$(120,481)	\$ 159,254	\$ 152,404	\$ 267,934	\$ (10,837)	\$ 448,274	\$ 373,074
Excess of revenue over expenses	46,275	—	—	—	—	46,275	23,120
Internally imposed restrictions	(25,645)	25,625	—	20	—	—	—
Net change in investment in capital assets (note 12)	(4,722)	—	4,722	—	—	—	—
Contributions to art collection (note 6)	—	—	86	—	—	86	156
Endowment contributions and investment income (note 13)	—	—	—	1,556	—	1,556	3,123
Unrealized gains (losses) on endowment investments (note 13)	—	—	—	(53,009)	—	(53,009)	50,163
Change in fair value of interest rate swaps	—	—	—	—	(4,210)	(4,210)	(1,362)
Net assets, end of year	\$(104,573)	\$ 184,879	\$ 157,212	\$ 216,501	\$ (15,047)	\$ 438,972	\$ 448,274
Details of year-end balance:							
Operating (note 11(a))	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (3,656)
Plant	19	—	—	—	—	19	373
Ancillary	1,579	—	—	—	—	1,579	1,548
Provision for vacation pay	—	—	—	—	—	—	(6,762)
Provision for employee future benefits obligation	(106,171)	—	—	—	—	(106,171)	(111,984)
Appropriations	—	164,618	—	—	—	164,618	141,421
Research	—	15,956	—	—	—	15,956	14,764
Enterprise	—	3,056	—	—	—	3,056	3,060
Scholarships	—	6	—	—	—	6	9
Professional development	—	1,243	—	—	—	1,243	—
Capital assets	—	—	157,212	—	—	157,212	152,404
Endowment	—	—	—	216,501	—	216,501	267,934
Interest rate swaps	—	—	—	—	(15,047)	(15,047)	(10,837)
	\$(104,573)	\$ 184,879	\$ 157,212	\$ 216,501	\$ (15,047)	\$ 438,972	\$ 448,274

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Cash Flows

Year ended April 30, 2012, with comparative figures for 2011
(in thousands of dollars)

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ 46,275	\$ 23,120
Add (deduct) non-cash items:		
Increase (decrease) in employee future benefits liability	(5,813)	9,190
Amortization of capital assets	26,773	24,162
Amortization of deferred capital contributions	(13,672)	(11,308)
Net change in other non-cash operating working capital (note 18)	(19,363)	26,446
Net cash provided by operating activities	34,200	71,610
Financing activities:		
Decrease in mortgages payable (note 8(a))	(245)	(233)
Increase (decrease) in loans payable (note 8(a))	29,879	(1,698)
Capital contributions received (note 9)	8,247	38,436
Contributions to art collection	86	156
Endowment contributions and investment income	1,556	3,123
Net cash used in financing activities	39,523	39,784
Investing activities:		
Net withdrawals (acquisitions) of investments	3,356	(3,598)
Decrease in net investment in lease	485	455
Capital asset additions	(56,796)	(76,977)
Net cash used in investing activities	(52,955)	(80,120)
Increase in cash and cash equivalents	20,768	31,274
Cash and cash equivalents, beginning of year	162,367	131,093
Cash and cash equivalents, end of year	\$ 183,135	\$ 162,367
Consisting of:		
Cash on deposit	\$ 5,648	\$ 4,478
Outstanding cheques	(8,686)	(5,463)
Money market fund	186,173	163,352
	\$ 183,135	\$ 162,367
Interest paid	\$ 4,302	\$ 4,233

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements

Year ended April 30, 2012

(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 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, 2012

(Tabular amounts in thousands of dollars)

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, 2012

(Tabular amounts in thousands of dollars)

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, 2012

(Tabular amounts in thousands of dollars)

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, 2012

(Tabular amounts in thousands of dollars)

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, 2012

(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:

	2012		2011	
	Fair value	Cost	Fair value	Cost
Marketable securities	\$ 217,704	\$ 208,636	\$ 274,069	\$ 211,992

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:

	2012	2011
	Carrying value	Carrying value
Endowments	\$ 215,463	\$ 271,498
Parker loans for students	1,103	1,344
NWRC Capital renewal	576	665
Sprott Student Investment Fund	562	562
	<u>\$ 217,704</u>	<u>\$ 274,069</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

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:

	2012	2011
Minimum lease payments receivable	\$ 19,500	\$ 20,800
Unearned financing revenue	(6,675)	(7,490)
	12,825	13,310
Less current portion of net investment in lease	(519)	(487)
Net investment in lease	<u>\$ 12,306</u>	<u>\$ 12,823</u>

At April 30, 2012, future minimum lease payments receivable under the direct financing lease are as follows:

2012-13	\$ 1,300
2013-14	1,300
2014-15	1,300
2015-16	1,300
2016-17	1,300
Thereafter	13,000
	<u>\$ 19,500</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

5. Capital assets:

Capital assets consist of the following:

	Cost	Accumulated amortization	2012 Net book value	2011 Net book value
Land	\$ 6,706	\$ –	\$ 6,706	\$ 6,706
Buildings	464,284	148,232	316,052	294,270
Building improvements	80,196	9,167	71,029	60,020
Equipment and furniture	123,280	72,543	50,737	51,772
Computer equipment	15,659	13,258	2,401	3,504
Software	12,571	12,423	148	180
Automobiles	573	489	84	101
Library holdings	40,106	29,257	10,849	11,516
Art collection	23,571	–	23,571	23,485
	<u>\$ 766,946</u>	<u>\$ 285,369</u>	<u>\$ 481,577</u>	<u>\$ 451,554</u>

Included in buildings is \$4,132,000 (2011 - \$34,032,000) 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, 2011 amounted to \$710,150,000 and \$258,596,000 respectively.

6. Art collection:

The University has an art collection comprising approximately 29,500 pieces of art. In 2012, there were additions of donated pieces of art at an appraised value of \$86,000 (2011 - \$156,000).

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

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:

	2012	2011
Research	\$ 24,828	\$ 27,222
Grants	1,111	1,589
Student aid	5,077	5,077
Donations	8,408	7,274
Other	5,939	5,414
	<u>\$ 45,363</u>	<u>\$ 46,576</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, 2012

(Tabular amounts in thousands of dollars)

8. Long-term debt:

As at April 30, 2012, the University has principal outstanding of \$90,275,000 (2011 - \$60,641,000) under long-term mortgages and loans.

(a) Details of long-term debt:

	Maturity	Interest rate	Annual payment	2012 Principal outstanding	2011 Principal outstanding
Mortgages payable:					
Lanark and Renfrew Residences and University Commons	2013	5.375%	\$ 86	\$ 64	\$ 144
Grenville and Russell Residences	2017	5.375%	79	314	374
Glengarry Residence	2019	6.375%	176	1,066	1,171
				1,444	1,689
Loans payable:					
Leeds Residence	2022	6.724%	1,607	14,757	15,348
Prescott Residence	2013	6.299%	1,520	15,523	16,046
Frontenac Residence	2018	4.660%	840	14,049	14,256
Lennox & Addington Residence	2022	2.930%	850	31,686	—
NWRC loan	2028	6.460%	1,332	12,816	13,302
				88,831	58,952
				90,275	60,641
Less current portion of long-term debt				2,822	2,057
				\$ 87,453	\$ 58,584

Annual payment amounts include principal and interest.

(b) Long-term debt repayments:

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

2012-13	\$ 2,822
2013-14	2,915
2014-15	3,088
2015-16	3,273
2016-17	3,423
Thereafter	74,754
	<u>\$ 90,275</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

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 \$101,758,000 of floating rate debt for fixed rate debt ranging from 2.930% to 6.724%. The related derivative agreements are in place until the maturity of the debts in 2013, 2018, 2022 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 \$15,047,000 (2011 - \$10,837,000) 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:

	2012	2011
Balance, beginning of year	\$ 196,396	\$ 169,268
Less amortization of deferred capital contributions	(13,672)	(11,308)
Add capital contributions received:		
Grants for equipment and buildings	7,518	36,917
Donated assets	729	1,519
	<u>8,247</u>	<u>38,436</u>
Balance, end of year	<u>\$ 190,971</u>	<u>\$ 196,396</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(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, 2012, the University's future employee benefits liability and accrued benefit obligations are as follows:

	<u>2012</u>	<u>2011</u>
Accrued benefit obligation, beginning of year	\$ 120,632	\$ 107,686
Unamortized past service costs	(690)	(800)
Unamortized net actuarial loss	(11,712)	(5,604)
Accrued benefit obligation, end of year	<u>\$ 108,230</u>	<u>\$ 101,282</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 \$10,857,000 (2011 - \$10,195,000) 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 2012, the University contributed \$3,909,000 (2011 - \$3,662,000) 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>2012</u>	<u>2011</u>
Discount rate	4.50% - 5.00%	5.25% - 5.75%
Salary escalation	4.50%	4.00%
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, 2012

(Tabular amounts in thousands of dollars)

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 2012.

	Increase	Decrease
Net benefit cost	\$ 2,010	\$ 1,437
Accrued benefit obligation	16,452	12,901

(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, 2012

(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, 2012, 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:

	2012	2011
Accrued benefit obligation	\$ 960,456	\$ 912,825
Less: fair value of Plan assets	766,693	788,710
Plan deficit	193,763	124,115
Unamortized net actuarial loss	(195,822)	(113,413)
Accrued benefit liability (asset)	\$ (2,059)	\$ 10,702

The accrued benefit liability balance is included in the employee future benefits liability on the consolidated statement of financial position. The amount of \$12,761,000 (2011 - \$2,657,000) 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 \$26,136,000 (2011 - \$11,916,000) 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:

	2012	2011
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, 2012

(Tabular amounts in thousands of dollars)

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:

	2012	2011
Pension benefit plans:		
Discount rate, benefit cost	5.00%	5.75%
Discount rate, benefit obligation	5.75%	6%
Rate of compensation increases	4.5%	4.5%
Expected long-term rate of return on plan assets	6.75%	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, 2012

(Tabular amounts in thousands of dollars)

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:

	<u>2012</u>	<u>2011</u>
General appropriations	\$ 49,145	\$ 42,867
Specific reserves:		
Capital reserve	49,359	43,792
Pension liability reserve	42,448	36,705
Research initiatives	15,956	14,764
Ancillary reserve fund	15,141	7,684
Entrepreneurial initiatives	3,056	3,060
Student aid funds	1,242	1,789
Other projects and initiatives	8,532	8,593
	<u>\$ 184,879</u>	<u>\$ 159,254</u>

12. Investment in capital assets:

The investment in capital assets consists of the following:

	<u>2012</u>	<u>2011</u>
Capital assets	\$ 481,577	\$ 451,554
Less amounts financed by:		
Deferred capital contributions	(190,971)	(196,396)
Mortgages payable	(1,444)	(1,689)
Loans payable (Leeds, Prescott, Frontenac residences)	(76,015)	(45,650)
Other short-term financing	(55,935)	(55,415)
	<u>\$ 157,212</u>	<u>\$ 152,404</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

12. Investment in capital assets (continued):

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

	<u>2012</u>	<u>2011</u>
Capital assets additions:		
Total additions	\$ 56,796	\$ 76,977
Less:		
Contributions to art collection	(86)	(156)
Donated assets	(729)	(1,519)
Additions financed with grants	(7,518)	(36,917)
	<u>48,463</u>	<u>38,385</u>
Financing:		
Mortgages payable	245	233
Loans payable	(30,365)	1,241
Other short-term financing	(520)	(18,297)
	<u>(30,640)</u>	<u>(16,823)</u>
Amortization of deferred capital contributions	13,672	11,308
Amortization of capital assets	(26,773)	(24,162)
	<u>(13,101)</u>	<u>(12,854)</u>
Net change in investment in capital assets	<u>\$ 4,722</u>	<u>\$ 8,708</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, 2012

(Tabular amounts in thousands of dollars)

13. Endowments (continued):

Investment income earned on endowed investments is distributed at a rate of 4.0% (2011 - 4.0%) 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 2012</u>	<u>Total 2011</u>
Donations and bequests	\$ 4,067	\$ —	\$ 4,067	\$ 4,444
Realized gains (losses) on sale of investments	(3,966)	(61)	(4,027)	8,637
Investment income	10,841	192	11,033	96
Income distributions	(9,386)	(111)	(9,497)	(10,047)
	<u>1,556</u>	<u>20</u>	<u>1,576</u>	<u>3,130</u>
Unrealized gains (losses) on investments	(52,282)	(727)	(53,009)	50,163
Net change in year	<u>(50,726)</u>	<u>(707)</u>	<u>(51,433)</u>	<u>53,293</u>
Fund balance, beginning of year	265,940	1,994	267,934	214,641
Fund balance, end of year	<u>\$ 215,214</u>	<u>\$ 1,287</u>	<u>\$ 216,501</u>	<u>\$ 267,934</u>

The endowment balance consists of:

	<u>2012</u>	<u>2011</u>
Cumulative endowment principal	\$ 111,056	\$ 106,989
Cumulative undistributed investment income	96,411	98,902
Cumulative unrealized gains	9,034	62,043
Endowment balance on endowment investments	<u>\$ 216,501</u>	<u>\$ 267,934</u>

14. Contingent liabilities and commitments:

At April 30, 2012, commitments for future acquisitions, construction and renovations amounted to approximately \$24,214,000 (2011 - \$35,469,000).

Letters of credit totaling \$10,665,000 (2011 - \$10,068,000) were issued on behalf of the University at year-end.

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

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:

	2012	2011
Commissions and sponsorships	\$ 8,273	\$ 7,712
Medical insurance recoveries	1,755	1,787
Salary and benefit recoveries	1,581	1,861
Miscellaneous	7,071	6,562
	<u>\$ 18,680</u>	<u>\$ 17,922</u>

17. Other expenses:

	2012	2011
Equipment rental	\$ 3,420	\$ 3,604
Property taxes and insurance	2,732	2,649
Minor repair and upkeep	2,937	2,669
Banking and bad debts	2,357	2,558
Advertising and promotion	3,003	2,755
Communication	1,524	1,380
Miscellaneous	10,914	13,734
	<u>\$ 26,887</u>	<u>\$ 29,349</u>

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

	2012	2011
Decrease in accounts receivable	\$ 2,615	\$ 10,428
Decrease (increase) in prepaid expenses	(495)	144
Increase (decrease) in accounts payable and accrued liabilities	(20,366)	17,748
Decrease in deferred revenue	(1,213)	(1,701)
Increase (decrease) in accrued vacation pay	96	(173)
	<u>\$ (19,363)</u>	<u>\$ 26,446</u>

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

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:

	2012		2011	
	Fair value	Carrying value	Fair value	Carrying value
Investments	\$ 217,704	\$ 217,704	\$ 274,069	\$ 274,069
Loans payable	104,934	88,831	71,330	58,954
Mortgages payable	1,327	1,443	1,581	1,689
Interest rate swaps	15,047	15,047	10,837	10,837

CARLETON UNIVERSITY

Notes to Consolidated Financial Statements, continued

Year ended April 30, 2012

(Tabular amounts in thousands of dollars)

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. Comparative figures:

Certain 2011 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2012.

CARLETON UNIVERSITY

Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2012
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	Graphic Services	Health Services
Revenues	\$ 10,036	\$ 1,118	\$ 2,190	\$ 3,035
Expenses	8,990	1,107	1,832	3,264
Excess (deficiency) of revenues over expenses	1,046	11	358	(229)
Net assets, beginning of year	-	-	(80)	(104)
Transfer from (to) non-ancillary unrestricted net assets	343	(3)	(101)	375
Appropriated to internally restricted net assets	(1,389)	(8)	(177)	(42)
Return of funds from internally restricted net assets	-	-	-	-
Unrestricted net assets, end of year	\$ -	\$ -	\$ -	\$ -
 Internally restricted net assets				
Net assets, beginning of year	\$ 1,099	\$ 221	\$ -	\$ -
Appropriated from unrestricted net assets	1,389	8	177	42
Return of funds to unrestricted net assets	-	-	-	-
Net assets, end of year	\$ 2,488	\$ 229	\$ 177	\$ 42

	Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2012	Total 2011
\$	2,392	\$ 4,256	\$ 24,673	\$ 543	\$ 447	\$ 48,690	\$ 45,278
	2,401	2,256	20,384	752	–	40,986	39,605
	(9)	2,000	4,289	(209)	447	7,704	5,673
	1,732	–	–	–	–	1,548	1,209
	–	(175)	(1,405)	–	750	(216)	(9,840)
	–	(1,825)	(2,884)	–	(1,197)	(7,522)	(1,956)
	–	–	–	65	–	65	6,462
\$	1,723	\$ –	\$ –	\$ (144)	\$ –	\$ 1,579	\$ 1,548
\$	–	\$ 2,897	\$ 1,158	\$ 65	\$ 2,244	\$ 7,684	\$ 12,190
	–	1,825	2,884	–	1,197	7,522	1,956
	–	–	–	(65)	–	(65)	(6,462)
\$	–	\$ 4,722	\$ 4,042	\$ –	\$ 3,441	\$ 15,141	\$ 7,684

CARLETON UNIVERSITY

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

Year ended April 30, 2012
(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:

	2012	2011
Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2012		
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, 2012

Balance, beginning of year	\$ 655	\$ 1,395
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	2,202	2,296
Bursaries awarded (total number: 1,984)	(2,556)	(3,036)
Balance, end of year	<u>\$ 301</u>	<u>\$ 655</u>

The market value of the endowment as at April 30, 2012 was \$53,140 (2010 - \$66,284).

CARLETON UNIVERSITY

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

Year ended April 30, 2012
(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:

	2012	2011
Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2012		
Fund balance at beginning of year	\$ 4,551	\$ 4,551
Funds re-allocated to OTSS	224	–
Fund balance at end of year	<u>\$ 4,775</u>	<u>\$ 4,551</u>

Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2012

Balance, beginning of year	\$ 187	\$ 122
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	353	255
Bursaries awarded (total number: 130)	(169)	(190)
Balance, end of year	<u>\$ 371</u>	<u>\$ 187</u>

The market value of the endowment as at April 30, 2012 was \$6,067 (2011 - \$7,286).

CARLETON UNIVERSITY

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

Year ended April 30, 2012
(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, 2011 to March 31, 2012 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:

	2012	2011
Schedule of donations received between April 1 and March 31		
Cash donations matched between April 1 and March 31	\$ 1,070	\$ 478
Unmatched cash donations (received between April 1 and March 31)	–	–
Total cash donations	\$ 1,070	\$ 478

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

Balance, beginning of year	\$ 15,425	\$ 14,441
Funds re-allocated to OSOTF2	(224)	–
Eligible cash donations received between April 1 and March 31 in compliance with the November 2005 Program Guidelines and Reporting Requirements	710	478
Matching funds received/receivable from MTCU in 2010-11	1,070	478
Cash donations ineligible for match for the period between April 1 and March 31	22	28
Fund balance at end of year	\$ 17,003	\$ 15,425

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

Balance, beginning of year	\$ 445	\$ 377
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	689	682
Cash donations (received between April 1 and March 31)	(87)	1
Bursaries awarded (total number: 581)	(681)	(615)
Balance, end of year	\$ 366	\$ 445

CARLETON UNIVERSITY

Schedule 3 – First Generation Pilot Project Initiatives:

Year ended April 30, 2012

For the period from May 1, 2011 to March 31, 2012, the University's financial statements included expenditures totaling \$207,850 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.

	2010-2011 Approved funding	2010-2011 Actual expenditures	2011-2012 Approved funding	2011-2012 Actual expenditures
Salaries and wages:				
Project management	\$ 55,000	\$ 41,463	\$ 55,000	\$ 55,163
Project mentors	33,000	15,985	20,000	20,091
Contract/temporary staff	50,000	53,968	45,570	45,777
Administrative staff	15,000	13,200	33,000	33,046
	153,000	124,616	153,570	154,077
Other direct operating expenses:				
Furniture and equipment	600	134	–	–
Computer hardware / software	2,350	2,316	1,200	956
Data gathering, tracking and reporting (Data management system – development of database)	7,000	1,086	6,000	6,000
Travel and transportation	–	4,448	–	–
Educational materials	2,000	2,045	1,000	961
Communications	500	671	500	418
Marketing and advertising	5,500	3,643	5,500	5,320
Office supplies	1,300	1,252	1,300	1,114
Facilities rental	6,000	437	1,280	942
Hospitality	22,500	21,092	21,500	22,084
Other, please specify Student activities	15,000	8,165	16,000	15,978
	\$ 215,750	\$ 169,905	\$ 207,850	\$ 207,850