

# FINANCIAL REPORT TO THE BOARD OF GOVERNORS

2018 — 2019



Carleton  
UNIVERSITY

Canada's Capital University

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**THE HIGHLIGHT OF THE  
YEAR WAS THE SUCCESSFUL  
COMPLETION OF THE  
UNIVERSITY'S \$300.0 MILLION  
CAMPAIGN, WITH A FINAL  
CLOSING OF \$308.1 MILLION**

**Management Discussion and Analysis**

**Highlights of the year**

Since its founding in 1942 as a community-based university located at the juncture of the historic Rideau Canal and Rideau River, Carleton has grown to annually serve more than 30,600 students, supported by over 2,200 faculty and staff. The university offers a wide range of interdisciplinary academic programs and courses in six faculties: Arts and Social Sciences, Engineering and Design, Public Affairs, Science, Business and Graduate and Postdoctoral Affairs. Continuing investments in academic programs, research, and facilities have helped Carleton achieve cumulative enrolment growth of 29% in the past 10 years.

The 2018-2019 fiscal year was a period of significant leadership renewal for Carleton, with the arrival of our new President and Vice-Chancellor, Benoit-Antoine Bacon, and our distinguished Chancellor, Yaprak Baltacioğlu. This renewal has also seen the appointment of a new Provost and Vice-President Academic and several new Deans in the faculties of Arts and Social Science, Engineering and Design, Business, and Postdoctoral Affairs. The Carleton executive team, under the direction of the President, has begun to work on a comprehensive strategic planning process that will set the tone for the university's direction for years to come. The new Strategic Plan will build on the success of Carleton's previous Strategic Integrated Plan (SIP) – 2013-2018, which has raised the bar on the university's academic strength and research intensity, while improving financial and environmental sustainability. Carleton new Strategic Plan is expected to be available in spring 2020.

Despite some enrolment challenges experienced in 2018-2019, Carleton was able to maintain strong financial results for the year, with excess revenue over expenses increasing by 14.9% and net assets by 11.4%. Going forward, the university's financial strength will be critical to address the financial pressures from changes to the tuition fee framework and provincial grants.

The highlight of the year was the successful completion of the university's \$300.0 million campaign, with a final closing of \$308.1 million as at April 17, 2019. As a result, over 400 new scholarships were established to help Carleton students. Another key milestone reached in 2018-2019, involved receiving a record \$85.6 million for sponsored research that will advance Carleton's

research intensity in the areas of the humanities, science, and engineering.

Work on renewing the campus infrastructure continued throughout the year with \$14.2 million spent on building modernization, and \$104.3 million committed to future projects such as the Nicol Building for the Sprott Business School, and the new Engineering Design Centre. Carleton also acquired a 900-seat concert hall through an innovative arrangement that will benefit both the university and the community. Known as the Carleton Dominion-Chalmers Centre, the facility located in downtown Ottawa will become an academic and artistic hub to students and various community organizations. The Ottawa Symphony Orchestra was one of the first organizations to take advantage of this arrangement by making the Centre their main base of operation.

The university continues to invest in energy reduction and sustainability initiatives, and has been ranked 2nd in Canada and 33<sup>rd</sup> internationally by the UI Green Metric. Since 2005, to date, Carleton has reduced its overall greenhouse gas emissions intensity by 35%, with an interim target to reduce emissions by 50% before 2030, and to become carbon neutral by 2050.

During the year, Carleton established the Canadian Accessibility Network (CAN) to lead a national partnership in advancing accessibility for persons with disabilities through research, education and training, employment, and community engagement. This network will serve to mobilize the many potential partners dedicated to issues of accessibility across Canada and will build on the momentum of the Accessible Canada Act. During the year, Carleton also convened the Indigenous Strategic Initiatives Committee to revitalize the university's Indigenous strategy and re-energize relationships with Indigenous communities in the region and across the country. The committee is comprised of First Nations, Métis and Inuit members from local communities, as well as Carleton faculty, professional services staff and students.



# CARLETON PRIORITIES: IMPROVING GRADUATION AND RETENTION RATES, SKILLS DEVELOPMENT TOWARDS HIGHER EMPLOYABILITY, STUDENT'S ACCESSIBILITY, AND RESEARCH FUNDING

## Operating Environment

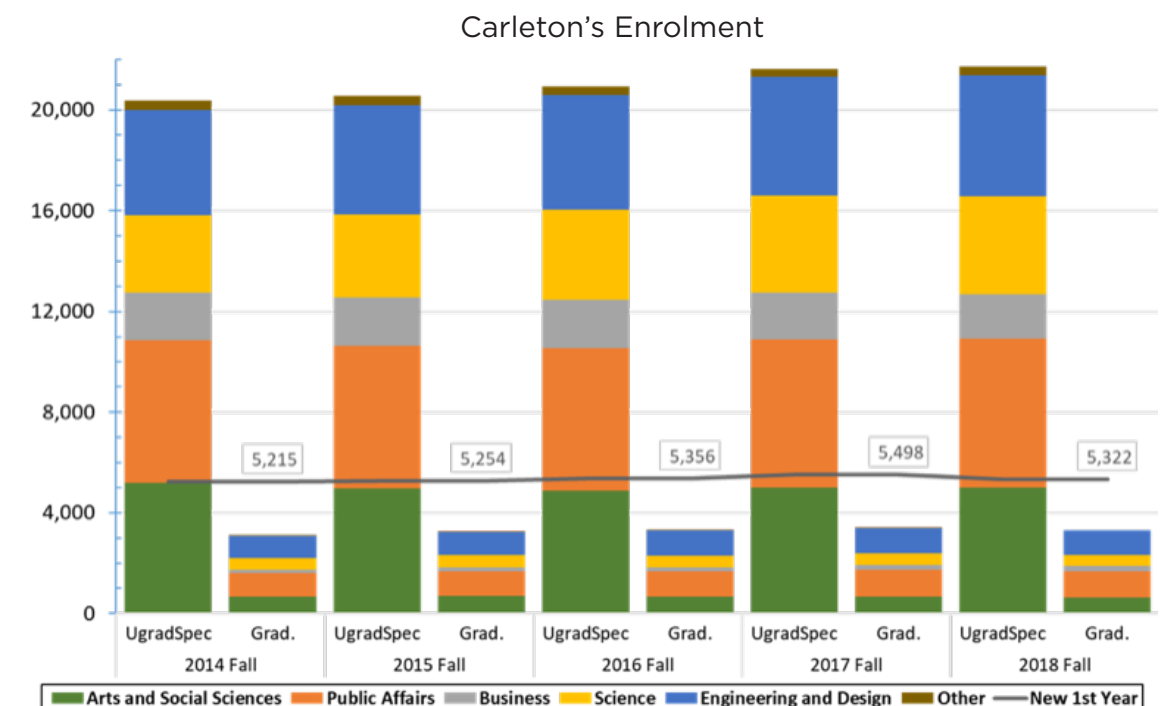
Carleton's 2018-2019 enrolment growth was temporarily impacted by the labour disruption experienced in the spring of 2018. First-year new students came in at 5,322 versus 5,498 the previous year, a reduction of 3.2%. However, we still managed to increase total full-time/part-time enrolment by 1.2% year-over-year.

In 2018-2019, government grants were administered through the 2017-2020 Strategic Mandate Agreement, using a corridor funding model, which capped grants at the 2016-2017 level for undergraduate students and at the 2019-2020 level for graduate students. On April 11, 2019, the Ministry of Training, Colleges and Universities (MTCU) announced a new performance-based funding framework for the next Strategic Mandate Agreement (2020-2025). This framework will tie the majority of funding to specific outcomes, starting at 25% of operating grants in the first year and ramping up to 60% in year 5. The related performance metrics will be set to reflect the priorities of the government in areas of skills development, job outcomes, and economic/community impacts. Most of the goals and priorities, identified by the government for the post-secondary sector, already occupy an important part of Carleton's priorities, with emphasis on improving graduation and retention rates, skills development towards higher employability, student's accessibility, and research funding.

In January 2019, the MTCU also announced a new Tuition Fee Framework and Ancillary Fee Guidelines for 2019-2020 and 2020-2021, which calls for a tuition fee decrease of 10% for full-time and part-time domestic students in 2019-2020, and a tuition freeze in 2020-2021. The financial impact of the lower tuition revenue for Carleton will be approximately \$20 million in 2019-2020. Changes to the Ancillary Fees Guideline further introduced a compulsory/non-compulsory categorization that will make non-compulsory fees, such as clubs and societies, optional to students.

In December 2017, the government implemented new regulations concerning the funding of pensions in Ontario. The changes affect going-concern and solvency funding along with various administrative matters. For Carleton, the new regulations will come into effect during the next pension valuation date of July 1, 2019. We expect that the university's current pension reserve will be sufficient to cover expected additional liabilities arising from the new Provision for Adverse Deviation (PfAD).

Other changes from recent government legislation that will have an impact on the operations of the university include the cancellation of the provincial Cap and Trade regulations and funding, the repeal of many provisions within the Fair Workplaces, Better Jobs Act (Bill 148), and the Centralized Procurement Initiative. More recently, the Ontario government introduced legislation to cap broader public sector wage increases to an average of one per cent annually for a three year period. This proposed legislation is expected to become law in fall 2019.



Using this Financial Report

The annual Financial Report needs to be read in conjunction with the associated Audited Financial Statements.

The accumulated balances for the operating, ancillary and plant funds described in the Financial Report match those shown in the audited financial statements - Consolidated Statement of Changes in Net Assets. However, financial information related to operating results is presented on a separate basis from the financial statements - Consolidated Statement of Operations. This basis of reporting provides management with information needed to support operating decisions and assess financial performance against budgets approved by the Board of Governors. The significant differences between information provided in the Financial Report and the Consolidated Statement of Operations relates to the treatment of capital acquisitions, internal appropriations, and contributions to endowment funds.

For capital acquisitions, the university internally accounts for the expenditures on a cash basis, as this provides a better link between funding and budgets. However, under generally accepted accounting principles, the audited financial statements include only a calculated amortization expense for capital assets, based on the expected life of the asset.

Appropriations represent commitments that are internally recognized as charges against the current operating results in the Financial Report, whereas they are excluded from the Consolidated Statement of Operations (income

statement) and instead are shown as internally restricted assets on the Consolidated Statement of Financial Position (balance sheet). Internally restricted assets cover specific reserves for future commitments such as pension, capital projects, ongoing research initiatives, or carry-forward budget balances available for future purposes. This is seen as an effective institutional policy in the management of financial resources, as it allows managers to plan expenditures over a period that extends beyond the fiscal year.

Regarding endowment funds, internal matching contributions to any endowment (externally restricted or Board designated) are not included as expenditures in the Consolidated Statement of Operations, but as direct increases to endowed net assets offset by decreases to unrestricted net assets. For internal purposes, and as reported in the Financial Report, the university considers these as expenditures. Similarly, income or losses on Board designated endowments are not included in the Financial Report's operating results, but are on the Consolidated Statement of Operations.

A reconciliation of the audited Consolidated Statement of Operations to the Financial Report internal operating results is shown below:

Section 2.5 of the Financial Report provides further details on the differences between the audited Consolidated Statement of Operations and the Financial Report. In addition, Schedule 1 of the Financial Report provides specific financial analysis of operating income and expenses as compared to the 2018-2019 operating budget approved by the Board of Governors. Audited Consolidated Financial Statements

Audited Consolidated Financial Statements

The audited financial statements combine all activities of the university (general operating, ancillary, research, capital, trust) into one statement, and should be read in conjunction with the Financial Report, which highlights key operating income and expenses as compared to the approved 2018-2019 Operating Budget.

As shown in the Consolidated Financial Statements, the university generated an excess of revenue over expenses of \$102.7 million in 2018-2019. This surplus reflects timing differences in the recognition of operating expenses as described previously.

The university's consolidated revenue of \$703.0 million increased \$47.2 million (7.2%) over the previous year, while consolidated expenses

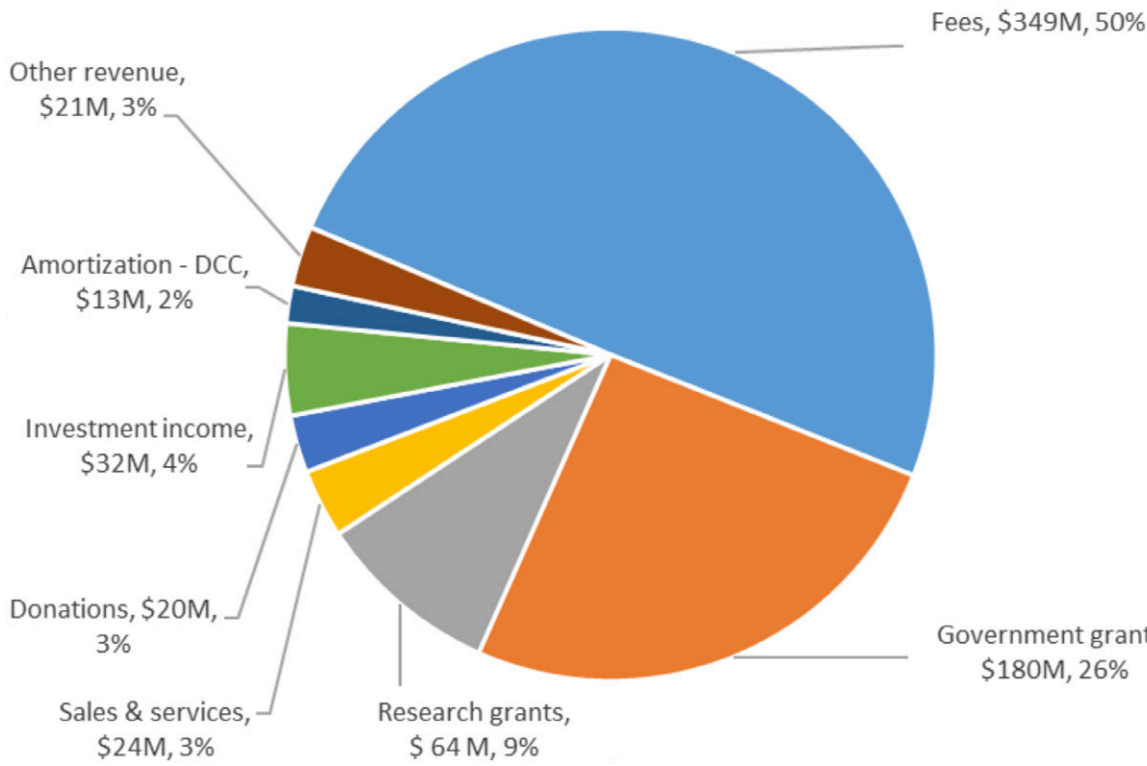
increased \$33.8 million to \$600.3 million (6.0%). Key contributors to the higher revenue included enrolment growth of 1.2% and average tuition fee increases of 3%, along with increased investment income.

Research grants and contracts recognized in the financial statements totalled \$63.2 million, increasing \$4.7 million (8.1%) over the previous year, while deferred research revenues climbed \$7.0 million to \$38.5 million, reflecting the success of Carleton's efforts to expand research activities.

Salaries and benefits, at \$375.3 million, form the largest part of the university's consolidated expenditures, accounting for 62% of total expenses. This represents an increase of \$22.8 million (6.5%) over 2017-2018.

The following charts illustrate the sources of consolidated revenue and expenditures for 2018-2019.

2018-2019 Consolidated Revenue : \$703 million

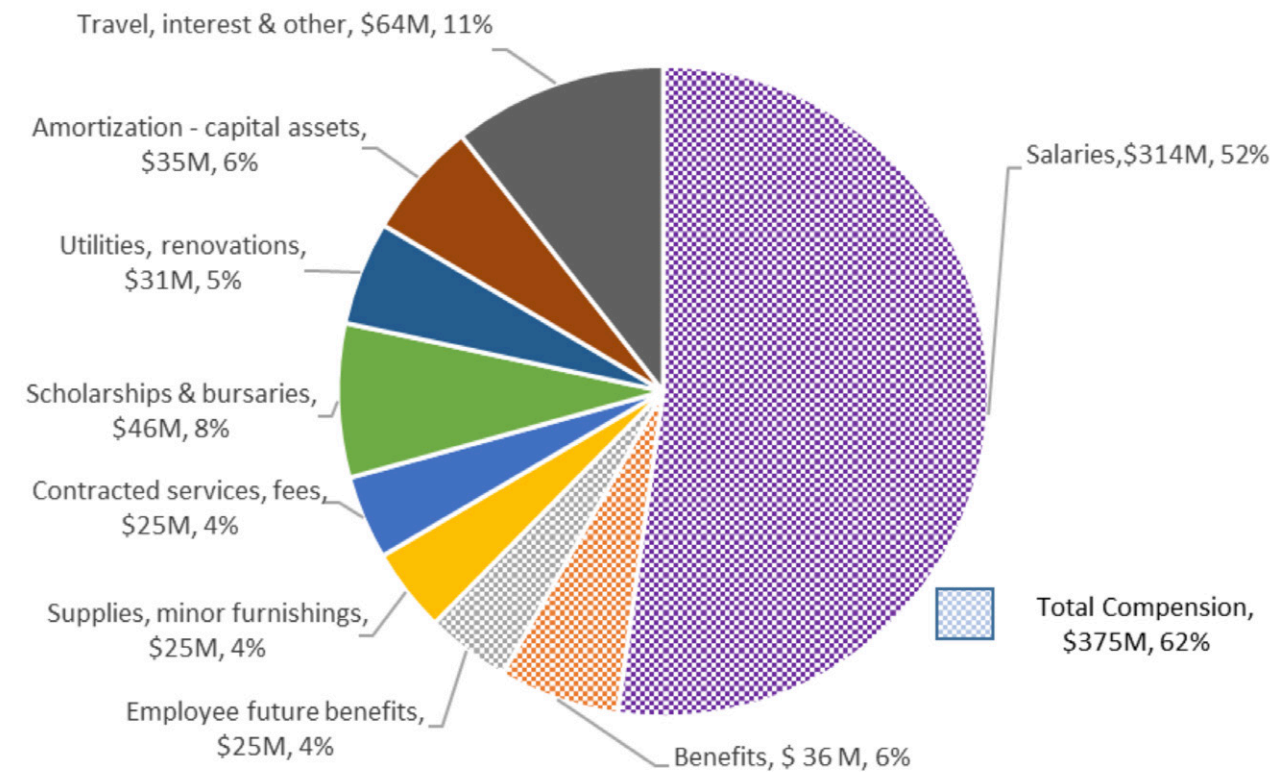


		2018-2019	2017-2018
Excess of revenue over expense (per audited statements)	\$	102.7 M	89.4 M
Net change in investment in capital assets	\$	(31.5 M)	(61.6 M)
Increase in internal appropriations	\$	(59.4 M)	( 4.4 M)
Internal contributions to endowment	\$	(3.8 M)	(20.4 M)
Other items*	\$	(8.0 M)	( 3.1 M)
Excess of revenue over expense per Financial Report	\$	nil	nil

\*Other items include the difference in calculated employee future benefit expenses versus the net cash payment for those benefits.



2018-2019 Consolidated Expenses: \$601 million



The strong financial results for the year saw the university’s net assets increase by \$112.9 million to \$1,103.0 million, or 11.4% more than the previous year. This increase reflects the \$102.7 million excess of revenues over expenses and the \$22.2 million in net endowment contributions and earnings, offset by the \$12.0 negative adjustment for employee future benefits.

Additional investments in capital assets of \$74.8 million included major projects such as the Health Sciences Building, the Institute for Advanced Research and Innovation in Smart Environments (ARISE), the Nicol building, the Co-generation plant, and a multi-year building modernization program (deferred maintenance).

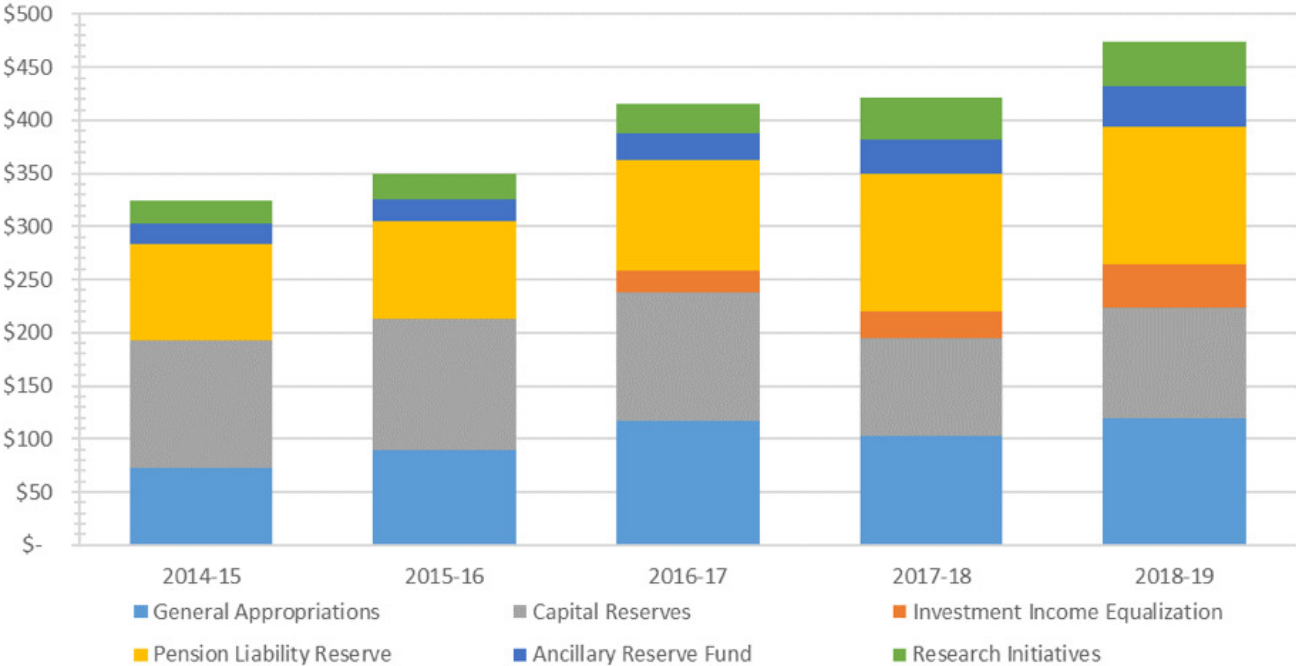
Endowed net assets reached \$295.4 million on April 30, 2019, after income distributions of \$10.7 million. The majority of endowment distributions

were to support student initiatives including scholarships and bursaries.

Donation revenue recognized during the year amounted to \$20.1 million, an increase of 55.3% from the previous year. In addition, donor contributions to endowment funds amounted to \$11.0 million. Contributions from donors form a vital part of the university’s annual operations and help finance student activities and financial aid.

Internal reserves are shown in the Consolidated Statement of Financial Position as internally restricted assets. The chart below shows the change in these reserves over the last five years, with the largest increase being associated with pension liabilities related to the government pension regulations.

Internally Restricted Assets



More details on the balances within the Consolidated Statement of Financial Position can be found in section 3 of the Financial Report.

The ministry and the university recognize that financial sustainability is critical to ensure a healthy post-secondary education system. To

that end, certain system-wide financial metrics have been developed and are being tracked as part of the SMA framework. These financial metrics, shown below, demonstrate that Carleton is in good financial health, and well positioned to address strategic opportunities and funding challenges.

System-Wide Financial Metrics\*

	2016-2017	2017-2018	2017-2018 (Sector Average)
Net Income/Loss Ratio (Profitability Indicator)	16.0%	13.6%	5.4%
Primary Reserve Ratio (days) (Ability to operate using unrestricted reserves)	309	293	115
Viability Ratio (Ability to cover long-term debt using unrestricted assets)	6.3	6.7	2.8
Interest Rate Burden Ratio (Proportion of total expenses to cover Interest payments)	0.8%	0.8%	2.2%

\* Source: Council of Ontario Financial Officers (COFO), April 2019



Capital Investments and Facility Renewal

Since 2008, Carleton’s enrolment has grown from 24,211 students to more than 30,600 (fall 2018 count). In order to accommodate that growth, the university has invested over \$440 million in major capital projects, with more recent projects including the Health Sciences Building (\$52 million) and the Advanced Research and Innovations in Smart Environments (ARISE) Building (\$29.5 million). Work is also under way on the Nicol Business Building (\$65 million), which will provide much needed classroom and workshop space.

In addition to investing in new facilities, the university has been addressing a backlog of deferred maintenance projects to maintain existing buildings in acceptable condition. Carleton’s 2017-2018 building condition assessment indicated that over 60% of the buildings on campus were considered in poor condition. In order to address the backlog of deferred maintenance projects, the Board approved funding of \$140 million over a 10-year period in 2016. To date, \$48 million has been spent on building modernization projects, including \$14.2 million in 2018-2019.

During the year, the university developed a comprehensive Transportation Plan to address growing congestion on campus roads and increasing demand for pedestrian and cyclist facilities. In the spring of 2020, the university will have to deal with the shutdown of the O-Train Line 2 for between 18 and 24 months, which will add to the congestion and parking challenges on campus. The Transportation Plan includes various measures including construction of additional campus access points, such as the new Stadium

Way off Bronson Avenue. An amount of \$10 million has been earmarked to implement the various transportation initiatives in the coming years.

Conclusion

In 2018-2019, the university was able to meet its financial targets despite experiencing lower than expected first year enrolment. Carleton’s continued financial strength will be key in addressing current and future capital commitments, pension liability, changes to tuition and grant funding, and other unforeseen contingencies.

The regulatory landscape for post-secondary institutions in Ontario is undergoing significant changes, which will present new operational and financial challenges. Most significant will be the move of grant funding in 2020-2021 to performance based outcomes. A significant portion of the government funding grant will become “at risk” under SMA3 – starting at 25% and moving to 60% after the fifth year. Although institutions will be comparing results against their historical performance, there are still many unknowns concerning targets and tolerance levels, which will be determined by the MTCU in the coming months.

The changing Ontario post-secondary regulatory framework will be an important backdrop to Carleton’s strategic planning process now underway. It is helpful that many of the desired such as student graduation and employability, are common themes for the university and the government. Overall, the university remains well positioned to take advantage of opportunities and address incoming challenges.

Michel Piché, CPA, MPA, CIA, C.Dir  
Vice-President (Finance and Administration)

September 2019

Tim Sullivan, BA, CPA, CGA  
Assistant Vice-President (Financial Services)

September 2019



THE UNIVERSITY REMAINS  
WELL POSITIONED TO TAKE  
ADVANTAGE OF OPPORTUNITIES  
AND ADDRESS INCOMING  
CHALLENGES





# CONSOLIDATED FINANCIAL REVIEW

## Consolidated Financial Review

### 1.1 General Operating Fund

The net 2018-2019 results for the Operating Fund (see section 2.2.3), showed a surplus of \$27.2 million before additional appropriations. This compares to the January 2019 projection of a \$7.9 million surplus and a break-even budget. The additional appropriations related primarily to increases in capital reserves of \$11.2 million and transfer to the Investment Income Equalization Fund of \$15.3 million.

Comparison of actual results to the opening budget is presented in Schedule 1, and actual results to projections is presented in Schedule 1A.

The breakeven result after appropriations for 2018-2019 leaves the accumulated surplus unchanged at \$0.5M as of April 30, 2019. A summary of key budget variances is provided below (see section 2.1), and excludes items where specific income was offset by related expenses.

Income: \$20.5 million above budget; \$16.2 million after \$4.3 million in specific expense offsets

Total operating income exceeded budget by \$20.5 million. Of that amount, \$4.3 million was required to be directed to specific expenditures such as student aid, access for the disabled, and Indigenous education and training. The remaining \$16.2 million favourable variance came from: grant income of \$0.7 million, investment income of \$15.3 million, and other miscellaneous income of \$2.7 million. These favourable variances were offset by lower tuition income of \$2.5 million.

Section 2.2.3 provides further details on the income budget variances.

Expenses and Appropriations: \$20.5 million above budget; \$16.2 million after \$4.3 million in additional income driven expenditures

Allocations less than contingency funds	\$ (6.4) million
Expenses less than budget	\$ (4.6) million
New appropriations	\$ 27.2 million

New appropriations (related to higher revenues), are included as charges against the current year's operations and therefore reduce the operating results.

### 1.2 Ancillary Operations

Although the results of the individual services can vary considerably, each is expected to break even over time, and maintain sufficient accumulated surpluses to address future capital expenditures and expansion.

In 2018-2019, total ancillary revenue amounted to \$69.8 million, with total expenditures of \$65.1 million, resulting in a combined surplus of \$4.7 million. This compared to a budgeted surplus of \$4.9 million. The accumulated surplus for all ancillary operations was \$38.9 million as at April 30, 2019, and will be required to fund future deferred maintenance and capital projects.

Additional information for ancillary operations is provided in section 2.3 and a summary of financial results is presented on Schedule 2 at the end of this report.



1.3 Statement of Financial Position (balance sheet)

Cash and cash equivalents and marketable securities increased by \$47.3 million in 2018-2019, which is due to the increase in internally restricted net assets of \$59.4 million, offset by the decrease in deferred revenue and accounts payable of \$11.8 million.

The increase of \$59.4 million in internally restricted assets, or appropriations, include funds for future capital investments (\$12.3 million), renovation projects (\$6.7 million), and research initiatives (\$2.9 million). Also contributing to the increase is the addition of \$32.3 million in general appropriations, which includes \$15.3 million to the Investment Income Equalization reserve to mitigate against equity investment fluctuations.

Significant investments in capital assets were made during the year, with additions totalling \$74.8 million dollars. The majority of these investments related to building and building improvements, including the Strategic Investment Funded (SIF) ARISE building and energy projects, as well as the Nicol Business building, the Health Science building and the Co-generation plant.

2. CONSOLIDATED STATEMENT OF OPERATIONS

The Consolidated Statement of Operations presented in the audited financial statements records income and expenses in accordance with Canadian accounting standards for not-for-profit organizations, as defined by the Chartered Professional Accountants (CPA) of Canada. Beginning with the 1997-1998 fiscal year, these statements combined all the activities of the university (previously segregated into “funds”) into one statement.

As the general operating activities of the university require specific strategic financial analysis, operating income and expenses are restated for management purposes in Schedule 1 on this report. This restatement provides a comparison of actual results to the 2018-2019 operating budget, as approved by the Board of Governors in the spring of 2018. A reconciliation of management statements to audited financial statements is provided in section 2.5.

Sections 2.1 and 2.2 below offer an analysis of Schedule 1 operating income and expense items as compared to the approved 2018-2019 operating budget. A similar review is provided in sections 2.3 and 2.4 for ancillary services, plant, and research activities.

2.1 Operating Income

Operating income totalled \$529,254,000 in 2018-2019. This compares to an original budget of \$508,712,000 and a total for the previous year of \$506,449,000. Total operating income was therefore \$20,542,000 (4.0%) above budget, and \$22,805,000 (4.5%) above the previous year. Each category of income is reviewed below and a summary is provided in Schedule 1 at the back of this report.

	2018-2019 Actual \$000	2018-2019 Budget \$000	Variance \$000
Revenues	529,254	508,712	20,542
Items offset by expenditures (section 2.2.1)	4,293	-	4,293
Net Revenues	524,961	508,712	16,249

2.1.1 Government Operating Grants

Government operating grants of \$76,822,000 were \$4,216,000 (2.4%) better than the budget, but \$5,770,000 (3.2%) less than the previous year. A comparison to the budget is provided below:

	2018-2019 Actual \$000	2018-2019 Budget \$000	Increase (Decrease) \$000
<b>Items Affecting the Operating Result</b>			
Core Operating Grant	153,816	153,816	-
International Student Recovery	(2,779)	(2,735)	(44)
Accessibility/Performance Funding	14,071	13,565	506
Research Overheads	5,269	5,146	123
Other government grants	344	260	84
Subtotal	170,721	170,052	669
<b>Items offset by expenses</b>			
Student Aid Funds	2,615	-	2,615
Municipal Tax Funding	1,649	1,609	40
Access for the Disabled	1,173	945	228
Indigenous Education and Training	358	-	358
Other Government Grants	306	-	306
Subtotal	6,101	2,554	3,547
Total Government Grants	176,822	172,606	4,216

Omitting special purpose grants, the operating revenue from the Ministry of Training, Colleges and Universities was \$669,000 above budget. The increase relates mostly to additional performance and enrolment operating funds.

As explained in section 2.2.1 below, a portion of the increase in grant revenue that is attributable to enrolment growth is shared with the faculties via the Enrolment-Linked Budget Allocation (ELBA).

2.1.2 Tuition Fees – Credit Programs

Tuition income totalled \$304,492,000 in 2018-2019. This represents an increase of \$18,062,000 (6.3%) over the previous year, but \$2,508,000 (0.8%) less than budget. Details of the increase over the previous year are as follows:

	Tuition Income (\$000)		Increase/Decrease	
	2018-2019	2017-2018	\$000	%
Undergraduate - Domestic	179,401	170,183	9,218	5.4%
Undergraduate - International	88,507	80,552	7,955	9.9%
	267,908	250,735	17,173	6.8%
Graduate - Domestic	23,104	22,455	649	2.9%
Graduate - International	13,480	13,240	240	1.8%
	36,584	35,695	889	2.5%
Total	304,492	286,430	18,062	6.3%



Tuition fees vary based on the discipline of study, as well as the residency status of the student. The 1.2% increase in enrolment from the previous year is detailed below:

	<i>Enrolment (F.T.E.)</i>		<i>Increase/Decrease</i>	
	<i>2018-2019</i>	<i>2017-2018</i>	<i>#</i>	<i>%</i>
Undergraduate - Domestic	20,972	20,771	201	1.0%
Undergraduate - International	3,147	3,023	124	4.1%
	24,119	23,794	325	1.4%
Graduate - Domestic	3,600	3,585	15	0.4%
Graduate - International	808	820	(12)	-1.5%
	4,408	4,405	3	0.1%
Total	28,527	28,199	328	1.2%

The additional tuition revenue coming from higher enrolment in 2018-2019 amounted to \$7,870,000, with the balance of \$10,192,000 due to tuition fee increases. As explained in section 2.2.1 below, a portion of the change in tuition revenue that is attributable to enrolment variation is shared with the faculties via the Enrolment-Linked Budget Allocation (ELBA).

2.1.3 Miscellaneous Income

Miscellaneous income totalled \$13,593,000 in 2018-2019, which was \$2,852,000 over budget and \$1,700,000 more than the previous year. Miscellaneous income consists of non-tuition administrative fees and charges to students, various recoveries from parties external to the university, as well as the ancillary enterprises and certain non-credit operations. Details are as follows:

	<i>2018-2019</i>	<i>2018-2019</i>	<i>Increase</i>
	<i>Actual</i>	<i>Budget</i>	<i>(Decrease)</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<u>Items affecting the operating result</u>			
Application and admission fees	2,945	2,335	610
Deferred payment and processing fees	2,597	2,438	159
Omnibus fee	1,131	1,085	46
Overhead charges	3,848	3,112	736
Facility rentals	801	776	25
Claim Settlement	678	-	678
Career Placement Services	285	275	10
Commission income	285	175	110
Library and other fines	20	50	(30)
Other miscellaneous	900	495	405
Subtotal	13,490	10,741	2,749
<u>Items offset by additional expenditures</u>			
Insurance proceeds	49	-	49
UPass production costs	54	-	54
Subtotal	103	-	103
Total Miscellaneous Income	13,593	10,741	2,852

2.1.4 Investment Income

Investment income totalled \$23,589,000 in 2018-2019, and was favourable to budget by \$15,339,000, and \$10,979,000 higher than the previous year. Investment returns related to equity investments represented \$11,000,000 of the total returns and consisted of \$7,600,000 in realized gains and \$3,400,000 in unrealized gains. Unrealized gain or loss at the end of the fiscal year are included in the consolidated statement of operations.

In 2015-2016, the Investment Committee decided to invest \$100,000,000 of the university’s available cash in equity funds, thus accounting for the favourable returns of the past years. However, to mitigate the risks associated with equity type investments, the Investment Committee also approved in 2017-2018 the creation of an Investment Income Equalization Fund to offset fluctuating market returns. Investment returns in excess or below budgeted investment income are appropriated to/from this fund. At April 30, 2019, the fund had a balance of \$40,693,000.

2.1.5 Departmental Income

Departmental income relates to sales and rentals that are under the jurisdiction of the university’s departmental managers. Generally, any shortfalls in income as compared to budget must be matched by a corresponding decrease in expenditures in the department concerned, while any income in excess of budget is available for additional expenditure. Variations in departmental income should not therefore generally affect the overall operating results of the university.

The following items are included in departmental income:

	<i>2018-2019</i>	<i>2018-2019</i>	<i>Increase</i>
	<i>Actual</i>	<i>Budget</i>	<i>(Decrease)</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<u>Items offset by additional expenditures</u>			
Co-op and Career Services	2,415	2,413	2
Teaching and Learning Services	1,495	1,480	15
Information Technology Services (ITS)	306	272	34
Centre for Initiatives in Education	1,049	1,030	19
Salary recoveries	582	579	3
Science and Technology Centre	40	40	-
Student Experience Office	667	655	12
Accessibility Services	139	83	56
Alumni and external contributions	2,696	2,591	105
General sales	457	340	117
Other	912	632	280
Total Department Income	10,758	10,115	643





2.2 Operating Expenditures, Transfers, and Appropriations

Operating fund expenditures and transfers, before appropriations, totalled \$479,074,000 in 2018-2019, and were \$29,638,000 (5.8%) lower than budget, and \$43,946,000 (8.4%) lower than the previous year. Including the additional appropriations of \$50,180,000, charges against the operating results were \$20,542,000 more than the budget.

A breakdown of the favourable expense variances to budget are shown below.

2.2.1 Operating Expenditures and Transfers

Expenses and Transfers below the original budget are calculated as follows:

	<u>\$000</u>
Actual operating expenditures and transfers	479,074
Opening budget	<u>508,712</u>
Expenditures below budget	<u>(29,638)</u>

The items making up the \$29,638,000 decrease in expenditures and transfers were:

	<u>\$000</u>	<u>\$000</u>
a) <u>Salary Increases</u>		
2018-2019 cost	17,291	
Less: Contingency in opening budget	<u>20,241</u>	
Additional cost/(savings)		(2,950)
b) <u>Mid-Year Allocations</u>		
Total allocations	3,136	
Less: Opening contingency	<u>2,636</u>	
Additional cost/(savings)		500
c) <u>Enrolment Incentive</u>		
2018-2019 cost	16,325	
Less: Opening contingency	<u>20,252</u>	
Additional cost/(savings)		(3,927)
d) <u>Other Contingencies</u>		
2018-2019 cost	33,180	
Less: Opening contingency	<u>33,133</u>	
Net		47
Total additional contingency costs/(savings)		<u>(6,330)</u>

<u>Overspent (unspent) balances not appropriated:</u>	<u>\$000</u>	<u>\$000</u>
e) Utilities	(4,051)	
f) Benefits	(1,120)	
g) Other minor balances	<u>550</u>	
Subtotal		(4,621)
<u>Expenditures funded by additional income:</u>		
Government grant (section 2.1.1)	3,547	
Tuition income (section 2.1.2)	-	
Miscellaneous fees & income (section 2.1.3)	103	
Departmental income (section 2.1.5)	<u>643</u>	
		4,293
Expenditures funded by returned appropriations	130,212	
Total appropriations in 2018-2019	<u>180,392</u>	
Net appropriations (section 2.2.2)	(50,180)	
Add: New appropriations (section 2.2.2)	<u>27,200</u>	
		(22,980)
Total expenditures and transfers below budget		<u>(29,638)</u>

Notes:

- a) Salary Increases: The cost of salary and benefit increases for 2018-2019 was \$2,950,000 less than budget.
- b) Mid-Year Allocations: Allocations from the mid-year contingency fund totalled \$3,136,000 in 2018 2019 as compared to a budget of \$2,636,000. The allocations includes:

Allocations from the Mid-Year Contingency Fund:

	<u>\$000</u>
International PhD Fee Bursary	1,000
Animal care facility	600
Undergraduate and international recruitment	900
Advancement relocation	234
Reputational survey	100
Campus transportation study	100
Other	<u>202</u>
Total allocations	3,136
Opening contingency	<u>(2,636)</u>
Additional costs	<u>500</u>

The Mid-Year Contingency Fund is managed by the Provost’s Budget Working Group, chaired by the Provost.

- c) Enrolment Incentive Plan: The Enrolment-Linked Budget Allocation (ELBA) was initiated in 2010 2011 whereby Faculties would receive 40% of the net revenue from enrolment growth in their areas. As enrolment was less than planned in 2018-2019, \$3,927,000 of the total \$20,252,000 set aside for this purpose was not required.



d) Other Contingencies: The allocations of \$33,180,000 for 2018-2019 include the following:

	<u>\$000</u>
Pension deficit	10,000
Capital projects	22,375
Pending positions and allocations	805
Total	<u>33,180</u>

e) Utilities: Savings continue to be achieved as the budget remains conservatively set, pending the full implementation of the Co-generation plant. As the university provides residences for its students, it has also benefited from a temporary residential hydro rebate.

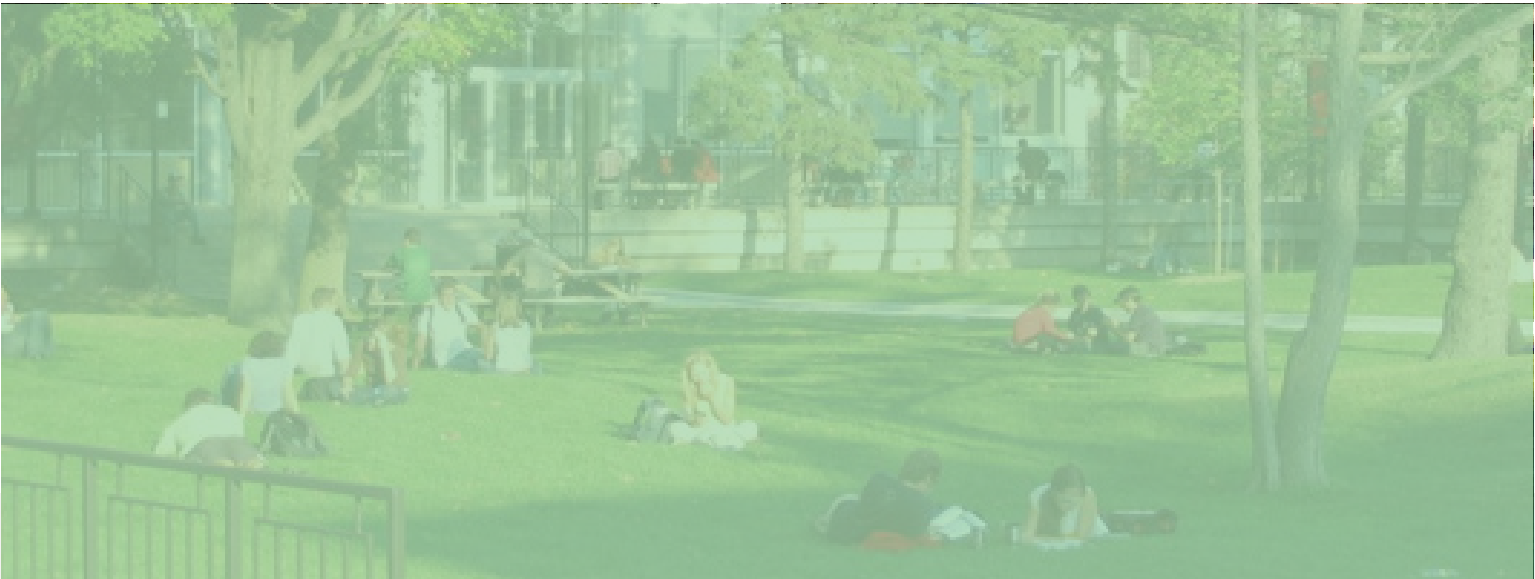
f) Staff benefits: The staff benefit budget was underspent by \$1,120,000 (2%). Half of this amount relates to larger than anticipated benefit recoveries from external funding, such as endowed chairs and WSIB rebates, with the balance being due to the conservative estimates being used.

2.2.2 Appropriations

Appropriations represent commitments that are recognized as charges against the operating results in the current year, although expenditure has not taken place. The commitment can either be to an outside supplier (i.e. an outstanding encumbrance may exist based on a purchase order which has not yet been fulfilled), or an internal commitment to a departmental manager that budgetary balances available in the current year can be used for specific projects in the future. Generally, unspent budgetary balances are carried forward into the next year. This is seen as an effective institutional policy as it allows managers to plan expenditures over a period that extends beyond the fiscal year, and deters any potentially wasteful spending towards the year end that may arise if budgetary funds were no longer available.

The net increase in appropriations for the year is calculated as follows:

	<u>\$000</u>
Appropriated to fund balance 2018-2019	180,392
Returned from 2017-2018 fund balance	130,212
Increase in appropriated fund balance	<u>50,180</u>



Details of the returned and new appropriations are as follows:

	<u>Returned</u>	<u>Appropriated</u>	<u>Difference</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
<u>RPC</u>			
Faculties	63,724	76,972	13,248
Academic Administration	952	1,337	385
Students and Enrolment	2,545	3,560	1,015
Library	1,236	1,409	173
President	2,172	1,369	(803)
Research and International	2,935	4,546	1,611
Finance and Administration	7,048	8,526	1,478
Computing infrastructure	1,366	2,655	1,289
Renovations	14,210	19,620	5,410
Advancement	16,333	15,596	(737)
Student Support	1,482	3,498	2,016
Pending commitments	273	229	(44)
Self-insurance fund	95	-	(95)
Capital reserves	12,700	13,875	1,175
Endowed student aid matching funds	3,141	-	(3,141)
Subtotal	<u>130,212</u>	<u>153,192</u>	<u>22,980</u>
New allocations	-	27,200	27,200
Total	<u>130,212</u>	<u>180,392</u>	<u>50,180</u>

New allocations represent appropriations of unspent funds over and above those included in the original budget. For 2018-2019, new allocations total \$27,200,000 as detailed below:

	<u>\$000</u>
Capital reserves	11,161
Campus safety remediation	700
Investment income equalization fund (see section 2.1.4)	15,339
	<u>27,200</u>

In addition, \$238,991,000 in prior year appropriated funds were not returned during 2018-2019, as the planned expenditures will occur in future fiscal years.

	<u>\$000</u>
Pension liability reserve	128,941
Capital reserves	79,280
Investment income equalization fund	25,354
Strategic Initiatives fund	3,158
Endowed chair matching funds	1,800
Future program commitment	233
Self-insurance fund	225
Total appropriations not returned	<u>238,991</u>



The \$238,991,000 consists of:  
Current commitments against the capital reserve include \$39 million for the Nicol business building, \$7 million for the Health Sciences building, \$2 million for the Co-generation plant, and \$10 million for the campus transportation strategy.

The status of the pension plan remains a financial liability for the university. The Province has introduced new pension plan funding rules, which will required that a “Provision for Adverse Deviations” (PfAD) be fully funded. The July 1, 2019 pension plan valuation is expected to result in a PfAD calculation in the \$130 million range, for which the university currently has \$129 million reserved.

2.2.3 Operating Results

As noted in section 1 above, the actual results show a balanced result with revenues equal to expenditures and appropriations.

In the notes above, the increases in income and expenses have been reviewed in detail. Many of the items are offsetting, in that additional income was directed to specific areas of additional expense. In the analysis below, these offsetting items are excluded. The items shown are the major ones that resulted in the balanced operating result, along with the amounts projected and presented to the Board earlier in the year as part of the mid-year forecast.

Changes in Accumulated Surplus vs Projection			
	<i>Actual</i>	<i>Projected</i>	
	<i>Incr/Decr</i>	<i>Incr/Decr</i>	<i>Variance</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
<u>Income Variations</u>			
Government grants (section 2.1.1)	669	(254)	923
Tuition fees (section 2.1.2)	(2,508)	(2,700)	192
Miscellaneous income (section 2.1.3)	2,749	666	2,083
Investment income (section 2.1.4)	15,339	-	15,339
Departmental income (section 2.1.5)	-	-	-
Total income variations	16,249	(2,288)	18,537
<u>Expenditure Variations</u>			
Expenditures less than contingencies (sec 2.2.1)	6,330	7,006	(676)
Expenditures less than allocations (sec 2.2.1)	4,621	3,182	1,439
Total expenditure variations	10,951	10,188	763
Change in results	27,200	7,900	19,300
New appropriations (section 2.2.2)	(27,200)	(7,900)	(19,300)
Net change in results	-	-	-
Original surplus included in budget	-	-	-
Total change in accumulated surplus	-	-	-

2.2.4 Accumulated Surplus

The prior year accumulated operating surplus was \$498,000 and therefore the current year’s results left that unchanged as of April 30, 2019.

	<i>2018-19</i>	<i>2018-19</i>	<i>2017-18</i>
	<i>Actual</i>	<i>Budget</i>	<i>Actual</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Revenue and internal recoveries	69,769	70,312	69,633
Expenses and transfers	45,910	45,468	40,382
Surplus from operating activity	23,859	24,844	29,251
Major renovations and capital debt	19,147	19,952	21,502
Surplus for the year	4,712	4,892	7,749

2.3 Ancillary Operations - Operating Result and Fund Balance

Schedule 2 of this report, details the 2018-2019 operations of the ancillaries as compared to the approved budget. Overall the ancillary results can be summarized as follows:

- Ancillary operations ended the year with a combined actual surplus of \$4.7 million compared to a budgeted surplus of \$4.9 million. Each ancillary finished the year with an operating surplus, with the exception of Ancillary Property Rentals and Health and Counselling Services.
- The Ancillary Property Rentals incurred additional costs of \$3.2 million for renovations, resulting in a draw on accumulated reserves of \$2.4 million, while Health and Counselling Services incurred a planned deficit of \$0.3 million to cover upgrades to the clinic’s space and equipment.

The fund balances of the ancillaries are all currently in an accumulated surplus position. The change in these balances is as follows:

	<i>Balance at</i>	<i>Balance at</i>	
	<i>April 2019</i>	<i>April 2018</i>	<i>Variance</i>
	<i>\$000</i>	<i>\$000</i>	<i>\$000</i>
Accumulated Surplus - Unrestricted	744	1,695	(951)
Accumulated Surplus - Internally Restricted	38,180	32,517	5,663
	38,924	34,212	4,712

Ancillaries are expected to break even over time after covering both direct and indirect expenses.

2.4 Other Income and Expenditures

As explained in section 2 above, the 2018-2019 audited financial statements include all the activities of the university which used to be segregated into separate funds. The following sections highlights the more significant non-operating activities from the Consolidated Statement of Operations.

2.4.1 Capital Investments, Plant Income and Expenses

As indicated earlier, the accounting for investments in capital assets is one of the major differences in how the university accounts for expenditures internally, versus those in the audited financial statements. Included here is a high-level view of capital investments, as well as operating results for the non-capital portion of renovation projects, known as Plant income and expenses.

Since 2008, in order to accommodate enrolment growth, the university has invested over \$440 million in major capital projects, including several new buildings. In addition to investing in new facilities, the university has had to address a considerable backlog of deferred maintenance projects to maintain existing buildings in acceptable condition. To date, \$48 million has been spent on building modernization projects. Of the \$14.2 million spent in 2018-2019, over \$7 million related to projects to improve the indoor environment and energy conservation, resulting in considerable savings in utility costs and carbon emission reductions.

The Plant income and expenses included here represent non-capital and renovation projects, which are specifically funded from external sources, as well as those non-capital expenditures being funded from operations (e.g. general, ancillary, research) over a period of time.

The following summarizes the Plant income and expenses for 2018-2019: The accumulated deficit of \$427,000 represents expenditures incurred in advance of funding for non-capital projects.

	2018-2019 Actual \$000	2017-2018 Actual \$000	Increase (Decrease) \$000
<u>Income and Transfers</u>			
Government grants, other income	2,560	495	2,065
Transfers to/from operating & ancillary	1,365	2,255	(890)
Net income	3,925	2,750	1,175
<u>Expenses</u>			
Additions	2,851	3,568	(717)
Surplus (deficit)	1,074	(818)	1,892
Opening fund balance	(1,501)	(683)	(818)
Closing fund balance	(427)	(1,501)	1,074

2.4.2 Research Funding and Expenditures

The table below provides a summary of externally sponsored and internally funded research activity.

Externally sponsored research funding is considered restricted revenue and is not recognized as revenue on the audited financial statements until matching expenditures are made. Funding received but not spent during the year is shown as deferred revenue. Internally funded research revenue does not have external restrictions placed on it and is recognized as revenue when received. Unspent funds at year-end are shown as internally restricted balances on the financial statements.

	Balance April 30, 2018 \$000	2018-2019 Funding \$000	2018-2019 Expenditure \$000	Balance April 30, 2019 \$000
<u>Canadian Government Departments and Agencies</u>				
Citizenship	-	5	1	4
National Defence	55	608	297	366
Natural Resources Canada	177	6,081	6,109	149
Environment and Climate Change Canada	(6)	398	404	(12)
HRDC	14	209	66	157
Indigenous and Northern Affairs	77	153	142	88
ISED	27	117	115	29
IDRC	-	1,095	31	1,064
Health Canada	66	162	163	65
NRC	108	241	157	192
Federal Econ. Dev. Agency	-	275	285	(10)
Other Federal	204	1,287	1,208	283
<u>Tri-Agency Sponsored Research</u>				
CIHR	1,374	1,863	1,741	1,496
NSERC	7,842	17,066	15,755	9,153
SSHRC	5,230	7,712	6,208	6,734
Canada Research Chairs	(183)	2,607	2,538	(114)
Research Support Fund	-	4,856	4,856	-
<u>Other Sponsored Research</u>				
COE	380	171	509	42
Provincial, Municipal Governments	925	4,065	3,586	1,404
CFI / Ontario Research Fund	7,099	7,991	7,327	7,763
Ontario ERAP	71	433	279	225
Businesses and Foundations	6,122	17,166	15,725	7,563
Foreign Governments	354	122	284	192
Research Partnership Agreements	1,515	2,663	2,513	1,665
SNO and TRIUMF	-	8,256	8,256	-
Total Sponsored Research	31,451	85,602	78,555	38,498





Funding Source – continued

	Balance	2018-2019	2018-2019	Balance
	April 30, 2018	Funding	Expenditure	April 30, 2019
	-			-
Internally Restricted Research	39,371	9,948	7,059	42,260
<u>Total Research</u>	<u>70,822</u>	<u>95,550</u>	<u>85,614</u>	<u>80,758</u>

Notes: Key to acronyms

CFI	Canadian Foundation for Innovation
CIHR	Canadian Institutes for Health Research
COE	Federal/Provincial Centres of Excellence
ERAP	Early Researcher Award Program (Ontario)
IDRC	International Development Research Centre
ISED	Innovation, Science and Economic Development Canada
NRC	National Research Council
NSERC	Natural Science and Engineering Research Council
SNO	Sudbury Neutrino Observatory Institute
SSHRC	Social Science and Humanities Research Council
TRIUMF	National Laboratory for Particle and Nuclear Physics

Sponsored research funding received during the year increased by \$13,738,000 (19%) from \$71,864,000 in 2017-2018 to \$85,602,000 in 2018-2019. Corresponding expenditures on these projects increased by \$14,612,000 from \$63,943,000 to \$78,555,000. The sponsored research fund balance increased by \$7,047,000 from \$31,451,000 to \$38,498,000 as at April 30, 2019. This balance is included in deferred revenue.

Funding of internally restricted research projects returned to a more normalized annual level of \$9,948,000 in 2018-2019, compared to \$20,149,000 in 2017-2018. Related expenditures were relatively consistent at \$7,059,000, compared to \$7,383,000 in the prior year. As a result, the internally funded research balance increased from \$39,971,000 to \$42,260,000.

2.5 Reconciliation of Operating Results

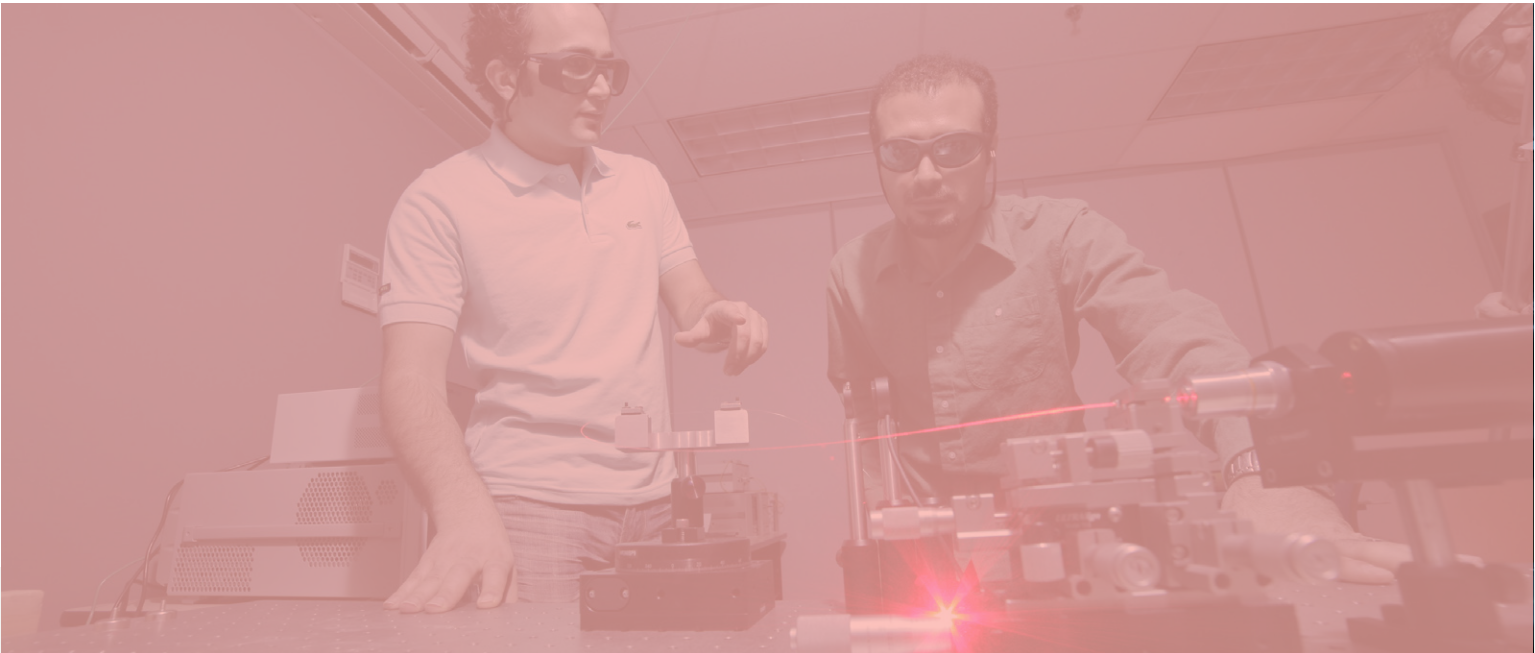
The accumulated balances for the operating, ancillary and plant funds described in the above sections match those shown on the Consolidated Statement of Changes in Net Assets. The operating results discussed above do not, however, match those shown on the Consolidated Statement of Operations. The following explains the differences in presentation:

	\$000
<u>Operating result per Consolidated Statement of Operations</u>	102,742
Adjustments:	
a) Net change in investment in capital assets	(31,499)
b) Increase in operating appropriations (2.2.2)	(50,180)
c) Research surplus (internally restricted) increase (2.4.2)	(2,889)
d) Enterprise surplus (internally restricted) increase	(350)
e) Scholarship surplus (internally restricted) increase	(2)
f) Professional Development (internally restricted) increase	(310)
g) Increase in unrestricted endowment	(641)
h) Employee future benefit expense net of cash payment	(7,932)
i) Internal contributions to restricted endowments	(3,153)
j) Ancillary surplus (section 2.3)	(4,712)
k) Plant surplus (section 2.4.1)	(1,074)
<u>Operating budget result</u>	<u>-</u>

Notes:

- a) Net change in investment in capital assets: For the purposes of managing general operations, the university accounts for funds received for, and expended on, the purchase of capital assets in the year the purchase is made. However, under Canadian accounting standards, the receipts and costs must be amortized over the life of asset (i.e.10 to 40 years). The result of this is that expenditures incurred during the year for capital assets are removed from those shown in the statements of operations and a calculated amount for amortization expenditure is recognized. Similarly, any restricted funds received during the year for capital purchases are removed from revenues and brought into income over the life of the asset. During 2018-2019 the following entries were made:

	\$000
Current year capital assets expenditures removed from expenses	(74,787)
Addback donated artwork	18
Current year funding received for capital assets removed from revenues	17,615
Current year change in capital asset financing removed from expenses	4,132
	<u>(53,022)</u>
Addback calculated amounts:	
Amortization of capital asset expense	34,709
Amortization of capital asset funding	(13,186)
Difference	<u>(31,499)</u>



The \$31,499,000 difference represents the excess of net cash outlays (i.e. actual cash expenditures less the actual cash received) over the prescribed calculated amounts reflected in the Consolidated Statement of Operations. It is shown as a reduction in Unrestricted Net Assets and an increase in Investment in Capital Assets.

- b) Increase in appropriations: Under Canadian accounting standards, appropriations are not accounted for on the face of the Statement of Operations, but are shown as a change in internally restricted net assets on the Consolidated Statement of Changes in Net Assets.
- c) Research funds: As shown in section 2.4.2 above, internally restricted research balances increased by \$2,889,000 during 2018-2019. As these funds are earmarked for the continuation of the research activity being funded, this \$2,889,000 (\$42,260,000 - \$39,371,000) is shown as an increase to the internally restricted amounts on the Consolidated Statement of Changes in Net Assets.
- d) Enterprise funds: As shown on the Consolidated Statement of Changes in Net Assets, enterprise balances have increased by \$350,000 (\$4,734,000 - \$4,384,000) during 2018-2019. As these funds are earmarked for continuation of specific projects, this change is shown as a decrease to the internally restricted amounts on the Consolidated Statement of Changes in Net Assets.
- e) Scholarship funds: As shown on the Consolidated Statement of Changes in Net Assets, internally restricted scholarship balances have increased by \$2,000 during 2018-2019. Although these scholarships do not have donor placed restrictions on them, the funds have been earmarked for student support in future years.
- f) Professional Development: As shown on the Consolidated Statement of Changes in Net Assets, we have an internally restricted balance for professional development funds earned by faculty members but not yet used.
- g) Gain on unrestricted endowment: The undistributed portion of the gain on the unrestricted endowment is recognized as gain in the unrestricted fund, thus increasing the surplus. However, as this amount does not actually become available for spending in the current year, it is not included in the operating fund results as reported on Schedule 1.
- h) Employee future benefits: As explained in section 3.2.5, a liability for future benefits owing to employees must be recognized in the university's financial statements. Actuarial assumptions are used to calculate the accrual-based expense to be recognized in the statement of operations and the related contributions that must be removed. During 2018-2019 the following entries were made:

		<u>\$000</u>
Employee future benefits, non-pension	13,167	
Employee future pension benefits	12,246	
Less: 2018-2019 contributions removed from expenditure	(33,345)	
Difference	(7,932)	

- i) Internally endowed amounts: Unrestricted contributions are recognized as revenue in the period in which they are received. When they are subsequently reallocated to the endowment fund, the transfer is shown on the Statement of Changes in Net Assets as a reduction in unrestricted net assets.
- j) Ancillary surplus: As presented in section 2.3, the ancillary operations resulted in a surplus of \$4,712,000 in 2018-2019.
- k) Plant surplus: As presented in section 2.4.1, the plant fund for non-capital and renovation projects resulted in a surplus of \$1,074,000 in 2018-2019.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

The following notes highlight items from the Consolidated Statement of Financial Position of potential interest to the reader of the Financial Report.

3.1 Source and Application of University Resources

The source and application of university resources at April 30, 2019 were as follows:

	<u>2019</u> <u>Actual</u> <u>\$000</u>	<u>2018</u> <u>Actual</u> <u>\$000</u>	<u>Increase</u> <u>(Decrease)</u> <u>\$000</u>
<u>Sources</u>			
Short-term liabilities:			
Accounts payable	45,136	50,790	(5,654)
Deferred revenue	96,363	102,533	(6,170)
Accrued leave	13,012	11,939	1,073
Current portion of long-term debt	3,966	3,798	168
Long-term liabilities:			
Employee future benefits	110,647	106,539	4,108
Long-term debt	63,386	67,352	(3,966)
Net assets:			
General operating fund	498	498	-
Ancillary and plant funds	317	194	123
Endowment fund	295,410	269,386	26,024
Internally restricted funds	506,986	447,592	59,394
	<u>803,211</u>	<u>717,670</u>	<u>85,541</u>
Total – Sources	<u>1,135,721</u>	<u>1,060,621</u>	<u>75,100</u>
<u>Applications</u>			
Short-term assets:			
Cash, equivalents and marketable securities	599,800	552,539	47,261
Accounts receivable	32,315	32,969	(654)
Prepaid expenses	13,366	19,826	(6,460)
Current portion of net investment in lease	820	768	52
Long-term assets:			
Net investment in lease	7,552	8,372	(820)
Investments	297,232	269,751	27,481
Capital assets:	684,928	644,850	40,078
Less: Investment in capital assets	(410,454)	(378,937)	(31,517)
Deferred capital contributions	(200,485)	(196,056)	(4,429)
Net assets:			
Provision for employee future benefits	110,647	106,539	4,108
Total - Applications	<u>1,135,721</u>	<u>1,060,621</u>	<u>75,100</u>



3.2 Source of University Resources

3.2.1 Accounts Payable - \$45,136,000

The accounts payable as at April 30, 2019 comprised:

	2019 \$000	2018 \$000	Increase (Decrease) \$000
Due to suppliers	6,375	5,904	471
Construction accruals and holdbacks	14,283	12,905	1,378
Payroll taxes and pension	11,736	18,373	(6,637)
Amounts held on deposit	3,149	4,110	(961)
Other taxes payable	630	606	24
Other payables and accrued liabilities	8,963	8,892	71
Total	45,136	50,790	(5,654)

Amounts payable at April 30 remained relatively consistent year-over-year. The fluctuation in payroll amounts is due to the timing of remittance payments.

3.2.2 Deferred Revenue - \$96,363,000

Deferred revenue as at April 30, 2019 comprised:

	2019 \$000	2018 \$000	Increase (Decrease) \$000
a) Government grants	3,259	10,513	(7,254)
b) Research	38,498	31,451	7,047
c) Scholarships	4,606	4,093	513
d) Parker loans	1,097	1,035	62
e) Special purpose	16,502	13,310	3,192
f) Donated software	9,596	16,223	(6,627)
g) Summer student fees	12,771	12,693	78
h) Other items	10,034	13,215	(3,181)
Total	96,363	102,533	(6,170)

Notes:

- a) The \$7,200,000 decrease in deferred grant revenue relates to \$5,000,000 held at April 30, 2018 for the purchase of the Dominion Chalmers Church, and \$2,100,000 held for the graduate capital expansion grant. The amounts remaining in deferred revenue relates mainly to unspent student aid grants (\$1,000,000) and performance funding (\$1,100,000).
- b) Research funds are the unexpended restricted grants and contracts to be spent in future years. The detailed composition of the balance is shown in section 2.4.2.
- c) Represents restricted scholarship accounts.
- d) Represents funds available to loan to students in need of financial aid.

- e) Special purpose is the unexpended portion of restricted donor gifts and other income.
- f) During the prior year, the Earth Sciences department received a significant gift-in-kind of software licenses for the period of September 2017 to August 2020. The value of \$9,596,000 represents the remaining balance of the restricted donation to be recognized in future years.
- g) Summer student fees represent payments received prior to April 30th for courses held in the summer term.
- h) Other deferred revenue relates mainly to advance payments received for projects earmarked for future years, summer programs in the Recreation and Athletics operation and Housing and Conference Services operation, and a capital replacement fund held for the NWRC building.

3.2.3 Current Portion of Long-Term Debt - \$3,966,000

The current portion of long-term debt is defined as the amount coming due within the next fiscal year. This totalled \$3,966,000 as at April 30, 2019, an increase of \$168,000 over last year.

3.2.4 Accrued Leave - \$13,012,000

The \$13,012,000 compares to \$11,939,000 last year for an increase of \$1,073,000. Canadian accounting standards require that accumulated but unpaid leave (annual and administrative) must be recognized as an expense and an amount payable at each year end. Consistent with other Ontario universities, the university has fully funded this accrued benefit, however the university’s resource management policies are such that any payment of accrued vacation will be charged against existing departmental resources in the year the event occurs.

3.2.5 Employee Future Benefits Liability - \$110,647,000

During 2001, the university adopted the recommendations of the CICA Handbook Section 3461, Employee Future Benefits, which has now been replaced by the Chartered Professional Accountants of Canada Handbook Section 3462/3463. Under these recommendations, the university accrues its obligations under employee benefits plans as the employees render the services necessary to earn post-retirement and post-employment benefits. Prior to the adoption of these recommendations, the non-pension costs were recognized on a “pay as you go” basis. While this represents a large, unfunded obligation, the ongoing cash demands of these benefits remain unchanged. As such, the deficit created by this accounting policy change does not have a significant impact on the operations of the university. Refer to note 11 of the audited financial statements at the beginning of this report for further information.

With respect to pension benefits, the university must recognize the defined benefit liability or asset in its statement of financial position. This amount is the defined benefit obligation less the fair value of the assets. With the adoption of the new Handbook section 3462/3463, deferral and amortization of actuarial gains and losses is no longer permitted for any future benefit obligation, which can lead to large swings in the liability or asset amount each year. Additional details are provided in note 11 of the audited financial statements. This note shows that, on an accounting basis, the pension plan is in a surplus position of \$28,759,000. It also states that on an actuarially determined basis, a going-concern shortfall of \$80,101,000 and a solvency shortfall of \$223,736,000 existed as at July 2016. As this actuarial determination relates more closely to actual and potential fund flows, the university uses this as its guide. Given these deficits, and the new pension rules that require the funding of a “Provision for Adverse Deviations” (PfAD), the university has reserved funds in an attempt to deal with the expected liability (see section 2.2.2).

In 2018-2019, the non-pension employee future benefit obligation increased by \$7,293,000, while the pension asset increased by \$3,185,000. For the non-pension benefits, the growing, unfunded obligation is mainly due to increased plan membership. Meanwhile, the increase in pension asset relates to actuarial gains on the obligation and higher employer contributions.

3.2.6 Long-Term Debt - \$63,386,000

The loans and mortgages payable are described in note 9 of the audited financial statements.

3.2.7 Net Assets, providing a source of resources - \$803,211,000

The net assets that constitute a source of resources are:

	2019	2018	Increase
	\$000	\$000	(Decrease)
			\$000
Operating fund	498	498	-
Ancillary and plant funds	317	194	123
Internally restricted funds	506,986	447,592	59,394
Endowment fund	295,410	269,386	26,024
Total	803,211	717,670	85,541

Notes:

a) The internally restricted net assets as at April 30, 2019, consist of the following:

	\$000
Appropriated operating funds (section 2.2.2)	419,383
Appropriated ancillary funds (section 2.3)	38,180
Internally restricted research balances (section 2.4.2)	42,260
Enterprise funds	4,734
Scholarship funds	14
Professional Development	2,415
	506,986

b) An analysis of the Endowment Fund is as follows:

	\$000
Market Value at April 30, 2019	295,410
Market Value at April 30, 2018	269,386
	26,024

The \$26,024,000 increase is calculated as follows:

	\$000
Unrealized gain (loss) on investment	7,243
Gifts, bequests and other additions (per below)	14,180
Gain (loss) on sale of investments	11,671
Investment income	7,471
	40,565
Less: Distributed for endowed spending	(10,670)
Direct and indirect operating costs	(2,668)
Investment management fees	(1,203)
Change in nominal value	26,024

The additions, by endowment fund, are composed of the following:

	\$000
Carleton University transfers and matching contributions	3,153
Douglas Arthur de Pencier Leadership Bursaries	2,350
The Clayton H. Riddell Political Management Endowment Fund	1,900
President's Endowment Fund (Singhal Family Foundation)	1,600
Renato Galliani Scholarship in French	400
Rea, Robert, Norm Patterson Bursary	400
Law Scholarship in Architectural Studies	250
Thomas Jeyes Bursary	250
CU Engineering Students Equipment Fund	213
Helmut Kallmann Chair in Canadian Music	200
Dr. Paul Mandl Bursary	174
Jaskula-Dondlinger Sports Analytics Internship	100
Other additions (<\$100,000)	3,190
Total additions	14,180

The realized investment returns for the year, including gains on sale and direct investment income, totalling \$19,142,000. The amount distributed towards endowed spending in 2018-2019 was \$10,670,000. This represents a distribution of \$3.709 per unit held in the investment pool. In addition, \$1,203,000 was paid to investment managers during the year and \$2,668,000 in direct and indirect expenditures were charged to the fund in 2018-2019.

A more complete analysis of the university’s endowment investments is provided in the quarterly report to the Board on investment performance.



3.3 Application of University Resources

3.3.1 Cash and Short-Term Investments - \$599,800,000

The cash and short term investment balance is as follows:

	2019	2018	Increase (Decrease)
	\$000	\$000	\$000
Cash balance	6	(3,553)	3,559
Cash equivalent investments	488,447	456,377	32,070
Marketable securities	111,347	99,715	11,632
Total	599,800	552,539	47,261

With a view to increase longer-term average returns on investments, the Investment Committee made a decision in the 2015-2016 fiscal year to invest a portion of the university’s cash balances in marketable securities. Using historical sending patterns as a guide, the Committee decided to invest \$100,000,000, as this amount would most likely not be required to meet short-term liquidity needs. The current market value of the marketable securities was \$111,347,000 (2018 - \$99,715,000) at April 30th, 2019.

3.3.2 Accounts Receivable - \$32,315,000

	2019	2018	Increase (Decrease)
	\$000	\$000	\$000
a) Student accounts	9,270	11,251	(1,981)
b) Student associations	441	242	199
c) General accounts receivable	8,648	5,811	2,837
d) Staff computer loans	122	90	32
e) HST/GST receivable	664	1,323	(659)
f) Bookstore	34	32	2
g) Union groups	218	81	137
h) Research funds	9,159	8,178	981
i) Student loans	1	1	-
j) Food service provider	1,727	1,729	(2)
k) MTCU grants	2,455	-	2,455
l) Deposit pending sale	-	5,000	(5,000)
Other receivables	1,084	569	515
Sub-total	33,823	34,307	(484)
l) Less: Allowance for doubtful accounts	(1,508)	(1,338)	(170)
Total	32,315	32,969	(654)

Notes:

- a) Student accounts: These accounts record activity relating to tuition fees, residence fees and other miscellaneous charges. The \$9,270,000 represents 2.8% (2018 – 3.65%) of the total 2018-2019 tuition and residence fee assessments.
- b) Student associations: Amounts outstanding for university services provided to various student groups.
- c) General accounts receivable: These amounts relate to services rendered by certain departments to external clients or to monies owed at year end for expenditures. The increase in the current year is due mostly to a large Hydro Ottawa contribution for the Co-generation plant received in May rather than April. The receivables are generally current.
- d) Staff computer loans: During 1996-1997, the university introduced a program whereby staff could acquire computers from the Computer Store on a credit basis. The loans bear interest and are reco ered through payroll deduction.
- e) HST/GST receivable: The balance typically represents the amount due from the government for the April HST/GST return.
- f) Bookstore: The 2018-2019 amount receivable is due from Follett Books and represents commission income related to 2018-2019 operations.
- g) Union groups: The various union groups use the university services on a recovery basis. The a counts are generally kept up to date.
- h) Research funds: The receivables related to research funds consist of two different types of balances: contract research and grants receivable. The nature of contractual research is such that expenditures must be incurred before progress billings can be made and income received. Most granting agencies make multi-year research awards with payment being spread over the period (usually three years). In many cases, however, the nature of the project is such that a greater proportion of the expenses must be incurred in the earlier periods of the grant. For the sake of continuity and given that research activity as a whole is in a net cash surplus position, the university allows reasonable advanced spending on multi-year research grants.
- i) Student loans: Student loans outstanding are issued under the Parker Loan fund which funds the interest and guarantees the principal of the loans.
- j) Food services provider: The 2018-2019 amount receivable from Aramark represents commission and profit share income related to the 2018-2019 operations.
- k) MTCU grants: This amount relates to the 2018-2019 portion of David C. Onley Employment Development Initiative, which was received in May 2019.
- l) Deposit pending sale: In March 2018, the university received \$5,000,000 from the Ministry for the pending purchase of the Dominion Chalmers Church. These funds were forwarded to the trustee in charge of the sale, as a deposit. As the sale did not close until a later date, the balance is shown was a receivable as of April 30, 2018, and was discharged on June 25, 2018.
- m) Allowance for doubtful accounts: The allowance includes \$1,250,000 for student fees, while the balance is for other overdue items.

3.3.3 Prepaid Expenses - \$13,366,000

Prepaid Expenses as at April 30, 2019 comprised:

	2019 \$000	2018 \$000	Increase (Decrease) \$000
Insurance	749	619	130
Licences	12,015	18,615	(6,600)
Physical Plant supplies	367	379	(12)
Other	235	213	22
Total	13,366	19,826	(6,460)

Prepaid expenses represent payments to third parties for services to be provided in future periods (e.g. insurance, licences), as well as any significant stock of materials and supplies for internal use (e.g. Facilities Management & Planning supplies). The decrease in prepaid licences is due to the drawdown of a three-year software licence received in 2018.

3.3.4 Current Portion of Net Investment in Lease - \$820,000

The current portion of net investment in lease is defined as the amount collectible within the next fiscal year. This totalled \$820,000 at April 30, 2019 and represents the non-financing income portion of the \$1,300,000 annual National Wildlife Research Centre (NWRC) lease payment. Further detail is provided in section 3.3.5 and in note 5 of the audited financial statements.

3.3.5 Net Investment in Lease - \$7,552,000

In 2002-2003, Carleton University entered into an agreement with Environment Canada under which the university constructed the National Wildlife Research Centre (NWRC) building on its property, which was then leased to Environment Canada. The lease term is for 99 years starting May 1, 2002, which exceeds 75% of the estimated useful life of the building. Under the guidance of the CPA Canada Handbook, Part II, section 3065: Leases, this fact indicates that the NWRC lease should be accounted for as a direct-financing lease.

The accounting treatment for the direct-financing lease began in fiscal 2003 when the building became operational. The university removed the building's construction cost from capital assets and the difference between the cost of the capital asset and the long-term receivable for the future lease payments was recorded as unearned financing income and is presented as Net Investment in Lease on the consolidated financial statements.

The calculation of this amount is presented in detail in note 5 of the audited financial statements.

3.3.6 Investments - \$297,232,000

The nature of most investments has been detailed in preceding sections. They are summarized below:

	2019 \$000	2018 \$000	Increase (Decrease) \$000
Investments held for:			
Endowment	293,912	266,732	27,180
Parker Loan fund	1,265	1,207	58
NWRC capital reserve	871	799	72
Sprott Student fund	1,184	1,013	171
Total	297,232	269,751	27,481

As indicated in note 2(c) of the audited financial statements, all investments are shown at fair market value. Additional information on the investments can be found in note 4 of the audited financial statements.

3.3.7 Capital Assets: \$684,928,000  
Investment in Capital Assets: \$410,454,000  
Deferred Capital Contributions: \$200,485,000

The net value of capital assets as at April 30, 2019 comprised:

	2019 \$000	2018 \$000	Increase (Decrease) \$000
Capital Assets:			
Land and buildings	715,910	672,377	43,533
Building improvements	171,084	156,438	14,646
Equipment and furnishings	99,113	98,904	209
Computers and software	6,445	6,268	177
Automobile	259	225	34
Library and art collections	47,568	45,183	2,385
	1,040,379	979,395	60,984
Less: Accumulated depreciation	(355,451)	(334,545)	(20,906)
Net capital assets	684,928	644,850	40,078
Funding:			
Investment in capital assets	410,454	378,937	31,517
Deferred capital contributions	200,485	196,056	4,429
Total funding	610,939	574,993	35,946
Unfunded assets	73,989	69,857	4,132
Financed by:			
Mortgages payable	114	277	(163)
Loans payable	58,868	61,739	(2,871)
Other short-term borrowing	15,007	7,841	7,166
Total	73,989	69,857	4,132





The specific capital assets funded through financing are as follows:

	2019 \$000	2018 \$000	Increase (Decrease) \$000
<u>Mortgage financing:</u>			
Glengarry residence	114	277	(163)
<u>External loan financing:</u>			
Prescott residence	10,773	11,586	(813)
Leeds residence	9,279	10,226	(947)
Frontenac residence	12,180	12,499	(319)
Lennox & Addington residence	26,636	27,428	(792)
	58,868	61,739	(2,871)
<u>Internal loan financing:</u>			
P6/P7 Parking Garage	22,915	23,375	(460)
Housing and Food Services renovations	8,022	8,430	(408)
Ice Arena	4,144	4,693	(549)
Alumni Hall and Sports Centre	2,188	2,337	(149)
Field Bleachers	924	996	(72)
Nicol Building (funding in advance of expense)	(10,517)	(19,139)	8,622
Building Fit-ups (funding in advance of expense)	(12,164)	(12,463)	299
Other (funding in advance of expense)	(505)	(388)	(117)
	15,007	7,841	7,166
Financed assets	73,989	69,857	4,132

3.3.8 Net Assets, requiring an application of resources - \$110,647,000

The net assets classified as an application of resources include:

	2019 \$000	2018 \$000	Increase (Decrease) \$000
Provision for employee future benefits	110,647	106,539	4,108
Total	110,647	106,539	4,108

As discussed in section 3.2.5, this represents the unfunded balance of employee future benefits as at April 30, 2019.

General Operating Fund 2018-2019  
Income, Expenses and Accumulated Surplus  
Comparison To Budget (May 2018) and 2017-18 Actual

	2018-19 Actual \$000's	2018-19 Budget \$000's	Actual to Budget		2017-18 Actual \$000's	Actual to Prior Year	
			\$000's	%		\$000's	%
<u>INCOME</u>							
Government Grant	176,822	172,606	4,216	2.4	182,592	(5,770)	(3.2)
Tuition Fees	304,492	307,000	(2,508)	(0.8)	286,430	18,062	6.3
Miscellaneous Income	13,593	10,741	2,852	26.6	11,893	1,700	14.3
Investment Income	23,589	8,250	15,339	185.9	12,610	10,979	87.1
Departmental Income	10,758	10,115	643	6.4	12,924	(2,166)	(16.8)
Total Operating Income	529,254	508,712	20,542	4.0	506,449	22,805	4.5
<u>EXPENSES</u>							
Faculty of Arts & Social Sciences	58,901	58,275	626	1.1	51,468	7,433	14.4
Faculty of Public Affairs	36,747	38,089	(1,342)	(3.5)	32,831	3,916	11.9
Sprott School of Business	14,236	13,469	767	5.7	12,529	1,707	13.6
Faculty of Science	40,869	45,460	(4,591)	(10.1)	39,667	1,202	3.0
Faculty of Engineering and Design	37,735	46,096	(8,361)	(18.1)	32,646	5,089	15.6
Provost and Vice-President (Academic)	11,639	12,098	(459)	(3.8)	11,266	373	3.3
Vice-President (Students and Enrolment)	24,496	25,348	(852)	(3.4)	21,506	2,990	13.9
Library	18,484	18,493	(9)	(0.0)	16,232	2,252	13.9
Vice-President (Research and International)	3,891	5,465	(1,574)	(28.8)	3,804	87	2.3
Vice-President (Finance & Administration)	35,554	42,475	(6,921)	(16.3)	37,546	(1,992)	(5.3)
Advancement	5,661	5,320	341	6.4	5,063	598	11.8
President	4,706	4,639	67	1.4	4,181	525	12.6
University Budgets and Provisions	147,903	156,826	(8,923)	(5.7)	154,879	(6,976)	(4.5)
Interfund Transfers (net)	38,252	36,659	1,593	4.3	99,402	(61,150)	(61.5)
Sub-Total Operating Expenses	479,074	508,712	(29,638)	(5.8)	523,020	(43,946)	(8.4)
Net Appropriations	50,180	-	50,180		(16,571)	66,751	
Total Expenses	529,254	508,712	20,542	4.0	506,449	22,805	4.5
Increase in Surplus for the Year	-	-	-		-	-	
Opening Accumulated Surplus/(Deficit)	498	498	-		498	-	
Closing Accumulated Surplus/(Deficit)	498	498	-		498	-	

Note: 2018-2019 budget figures reflect the opening May 1, 2018 budget, with reallocations made to assist in comparison.

## INCOME

## EXPENSES

### Increase in Surplus for the Year

*Note: The 2018-2019 Projected amounts were those presented to the Board, with net appropriations now distributed to the relevant unit to ease comparison*

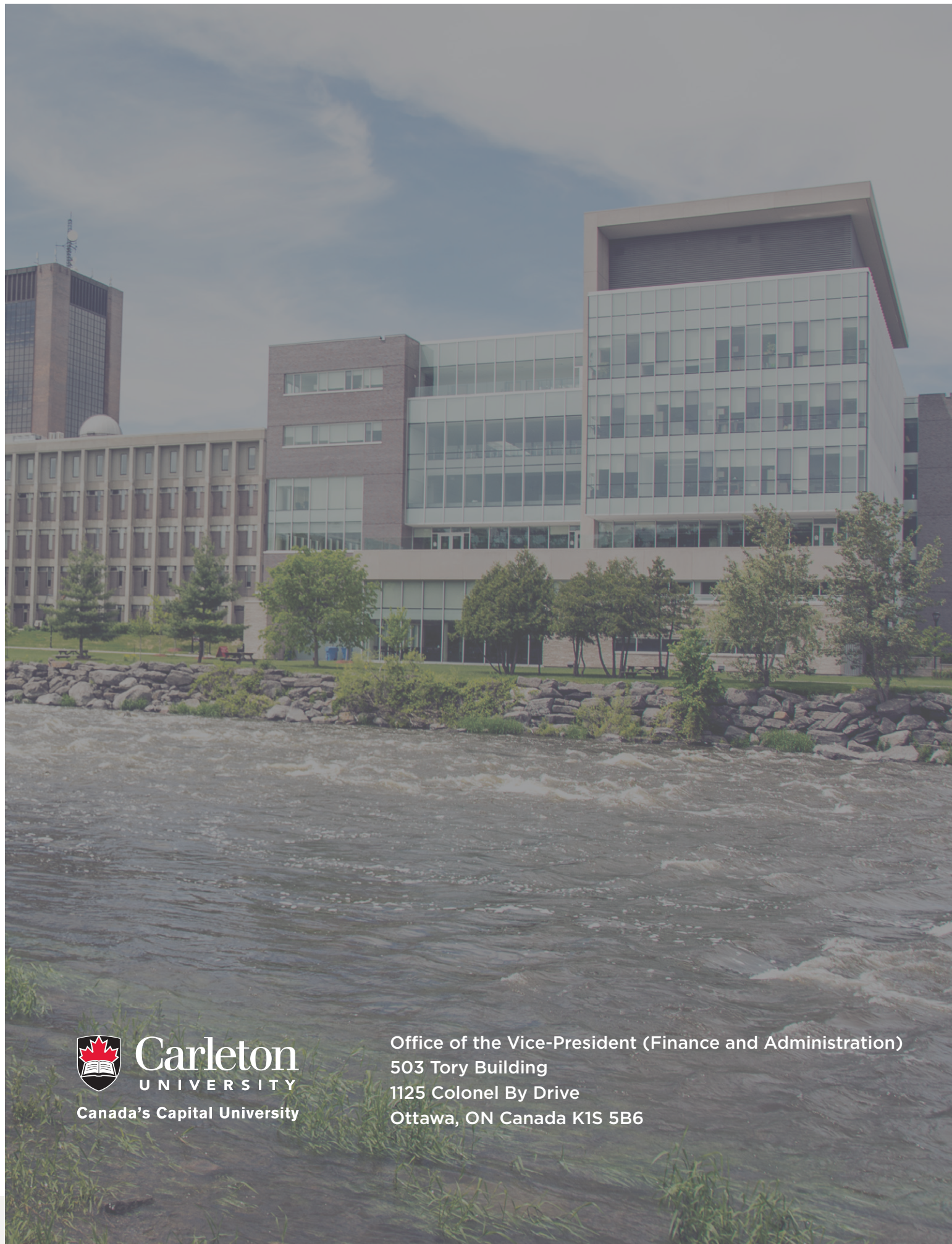
## 2018-19 Actual

2018-19 BudgetActual as Compared to Budget

Unappropriated fund balance  
Appropriated fund balance

1,695	744
32,517	38,180
34,212	38,924





**Carleton**  
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Canada's Capital University

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