Consolidated Financial Statements of

CARLETON UNIVERSITY

Year ended April 30, 2010

CARLETON UNIVERSITY

Consolidated Financial Statements

Year ended April 30, 2010

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AUDITORS' REPORT TO THE BOARD OF GOVERNORS

We have audited the consolidated statement of financial position of Carleton University as at April 30, 2010 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

July 30, 2010

CARLETON UNIVERSITY

Consolidated Statement of Financial Position

April 30, 2010, with comparative figures for 2009
(in thousands of dollars)

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 131,093	$ 116,971
Accounts receivable	37,215	23,690
Prepaid expenses	3,184	2,816
Current portion of net investment in lease (note 5)	454	425
	171,946	143,902
Investments (note 4)	220,308	190,242
Net investment in lease (note 5)	13,311	13,765
Capital assets (notes 6 and 7)	398,739	369,938
	$ 804,304	$ 717,847
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 31,909	$ 20,022
Deferred revenue (note 8)	48,277	51,270
Accrued vacation pay	6,935	7,342
Current portion of long-term debt (note 9)	1,931	13,611
	89,052	92,245
Long-term debt (note 9)	60,641	62,570
Interest rate swaps (note 9(d))	9,475	14,412
Deferred capital contributions (note 10)	169,268	139,754
Employee future benefits liability (note 14)	102,794	92,008
Net assets:		
Unrestricted	(113,969)	(106,079)
Internally restricted (note 11)	138,337	116,856
Investment in capital assets (note 12)	143,540	140,612
Endowments (note 13)	214,641	179,881
Interest rate swaps (note 9(d))	(9,475)	(14,412)
	373,074	316,858
Contingent liabilities and commitments (notes 15 and 18)		
	$ 804,304	$ 717,847

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Operations

Year ended April 30, 2010, with comparative figures for 2009
(in thousands of dollars)

	2010	2009
Revenue:		
Government grants for general operations	$ 149,590	$ 148,021
Fees	166,195	151,457
Research grants and contracts	53,596	55,634
Sales and services	20,732	20,352
Donations	5,747	10,749
Investment income	10,653	15,060
Amortization of deferred capital contributions (note 10)	10,184	9,253
Other (note 20)	17,776	16,022
	434,473	426,548
Expenses:		
Salaries	220,309	214,600
Benefits	34,016	35,082
Supplies	9,915	9,874
Minor equipment and furnishings	8,083	7,704
Externally contracted services and fees	15,493	15,043
Scholarships and bursaries	31,699	30,423
Utilities	10,527	10,173
Travel	8,985	9,739
Renovations	11,758	17,235
Interest	5,042	4,918
Amortization of capital assets	22,172	21,186
Employee future benefits (note 14)	14,294	9,868
Other expenses (note 21)	26,337	29,370
	418,630	415,215
Excess of revenue over expenses	$ 15,843	$ 11,333

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2010, with comparative figures for 2009
(in thousands of dollars)

	Unrestricted	Internally restricted	Investment in capital assets	Endow-ments	Interest rate swaps	Total 2010	Total 2009
		(note 11)	(note 12)	(note 13)	(note 9(d))		
Net assets, beginning of year	$(106,079)	$ 116,856	$ 140,612	$ 179,881	$ (14,412)	$ 316,858	$ 362,745
Excess of revenue over expenses	15,843	–	–	–	–	15,843	11,333
Internally imposed restrictions	(21,434)	21,481	–	(47)	–	–	–
Net change in investments in capital assets (note 12)	(2,299)	–	2,299	–	–	–	–
Contributions to art collection (note 7)	–	–	629	–	–	629	345
Endowment contributions and investment income (note 13)	–	–	–	2,317	–	2,317	8,383
Change in fair value of endowment investments (note 13)	–	–	–	32,490	–	32,490	(59,673)
Change in fair value of interest rate swaps	–	–	–	–	4,937	4,937	(6,275)
Net assets, end of year	$(113,969)	$ 138,337	$ 143,540	$ 214,641	$ (9,475)	$ 373,074	$ 316,858
Details of year-end balance:							
Operating (note 22(a))	$ (5,991)	$ –	$ –	$ –	$ –	$ (5,991)	$ (7,910)
Plant	542	–	–	–	–	542	849
Ancillary	1,209	–	–	–	–	1,209	332
Provision for vacation pay	(6,935)	–	–	–	–	(6,935)	(7,342)
Provision for employee future benefits obligation	(102,794)	–	–	–	–	(102,794)	(92,008)
Appropriations	–	120,745	–	–	–	120,745	99,018
Research	–	14,474	–	–	–	14,474	14,736
Enterprise	–	3,111	–	–	–	3,111	3,096
Scholarships	–	7	–	–	–	7	6
Capital assets	–	–	143,540	–	–	143,540	140,612
Endowment	–	–	–	214,641	–	214,641	179,881
Interest rate swaps	–	–	–	–	(9,475)	(9,475)	(14,412)
	$(113,969)	$ 138,337	$ 143,540	$ 214,641	$ (9,475)	$ 373,074	$ 316,858

See accompanying notes to consolidated financial statements.

CARLETON UNIVERSITY

Consolidated Statement of Cash Flows

Year ended April 30, 2010, with comparative figures for 2009
(in thousands of dollars)

	2010	2009
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 15,843	$ 11,333
Add (deduct) non-cash items:		
Employee future benefits liability	10,786	6,546
Amortization of capital assets	22,172	21,186
Amortization of deferred capital contributions (note 10)	(10,184)	(9,253)
Net change in other non-cash operating working capital (note 17)	(5,406)	2,124
Net cash provided by operating activities	33,211	31,936
Financing activities:		
Decrease in mortgages payable	(12,019)	(207)
Increase (decrease) in loans payable	(1,590)	13,272
Net withdrawals of investments	2,424	–
Capital contributions received (note 10)	39,698	17,116
Contributions to art collection	629	345
Endowment contributions and investment income	2,317	8,383
Net cash used in financing activities	31,459	38,909
Investing activities:		
Net acquisitions of investments	–	(8,469)
Decrease in net investment in lease	425	398
Capital asset additions	(50,973)	(42,779)
Net cash used in investing activities	(50,548)	(50,850)
Increase in cash and cash equivalents	14,122	19,995
Cash and cash equivalents, beginning of year	116,971	96,976
Cash and cash equivalents, end of year	$ 131,093	$ 116,971
Consisting of:		
Cash on deposit	$ 1,679	$ 5,556
Outstanding cheques	(3,497)	(8,909)
Money market fund	132,911	120,324
	$ 131,093	$ 116,971
Interest paid	$ 5,042	$ 4,918

See accompanying notes to consolidated financial statements.

1. Description:

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

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

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

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

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

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

2. Summary of significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, 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.).

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 and National Wildlife Research Centre (NWRC) Capital renewal investments are designated as held-for-trading. Realized and unrealized gains or losses from the change in fair value related to these externally restricted investments are recorded as deferred revenue.

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

The Residence sinking fund investments, which came to maturity in the year, were designated as held-to-maturity and were recorded at amortized cost using the effective interest rate method.

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

(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.

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 receipted by the University.

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

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

Construction costs are capitalized as work progresses and amortization commences 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.

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 receipted 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.

(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.

2. Summary of significant accounting policies (continued):

(j) Employee benefit plans (continued):

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 (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 (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.

3. Adoption of new accounting standards:

(a) Amendment to Section 1000, *Financial Statement Concepts*:

Effective May 1, 2009, the University adopted the amendments to the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1000, Financial Statement Concepts. These amendments clarified the criteria for recognition of an asset or liability, removing the ability to recognize assets or liabilities solely on the basis of matching of revenue and expense items. Adoption of this standard did not have a significant impact on the financial statements for the year ending April 30, 2010.

(b) *Amendments to Accounting Standards that Apply Only to Not-for-Profit Organizations:*

Effective May 1, 2009, the University adopted the amendments to the CICA Handbook 4400 Sections, which apply to not-for-profit organizations. These amendments eliminate the requirement to show net assets invested in capital assets as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as principal, and requiring the application of CICA Handbook Section 1540 *Cash Flow Statements* by not-for-profit organizations.

These amendments were retrospectively adopted, resulting in separate presentation of cash and cash equivalents and investments on the statement of financial position, as well as additional disclosures in the statement of cash flows.

(c) *Disclosure of Allocated Expenses by Not-for-Profit Organizations:*

Effective May 1, 2009, the University adopted the CICA Handbook Section 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations* which establishes disclosure standards for not-for-profit organizations that choose to report their expenses by function and allocate expenses between functions. The University reports their expenses by object on the statement of operations. Therefore, the adoption of these recommendations had no effect on these financial statements.

4. Investments:

(a) Carrying value, cost and fair values:

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

	2010		
	Carrying value	Fair value	Cost
Marketable securities	$ 220,308	$ 220,308	$ 208,677

	2009		
	Carrying value	Fair value	Cost
Bonds	$ 5,642	$ 5,924	$ 5,642
Marketable securities	184,600	184,600	210,907
	$ 190,242	$ 190,524	$ 216,549

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

(b) Purpose:

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

	2010 Carrying value	2009 Carrying value
Endowments	$ 218,538	$ 182,965
Parker loans for students	1,153	970
NWRC Capital renewal	558	450
Sprott Student Investment Fund	59	50
Centre for Research in Particle Physics	–	165
Residence sinking fund	–	5,642
	$ 220,308	$ 190,242

5. 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:

	2010	2009
Minimum lease payments receivable	$ 22,100	$ 23,400
Unearned financing revenue	(8,335)	(9,210)
	13,765	14,190
Less current portion of net investment in lease	(454)	(425)
Net investment in lease	$ 13,311	$ 13,765

At April 30, 2010, future minimum lease payments receivable under the direct financing lease are as follows:

2010	$ 1,300
2011	1,300
2012	1,300
2013	1,300
2014	1,300
Thereafter	15,600
	$ 22,100

6. Capital assets:

Capital assets consist of the following:

	Cost	Accumulated amortization	2010 Net book value	2009 Net book value
Land	$ 6,706	$ –	$ 6,706	$ 6,706
Buildings	378,446	131,590	246,856	227,417
Building improvements	55,645	3,700	51,945	43,581
Equipment and furniture	106,430	51,780	54,650	53,865
Computer equipment	13,923	10,681	3,242	2,910
Software	12,445	12,152	293	538
Automobiles	489	384	105	154
Library holdings	35,760	24,147	11,613	12,067
Art collection	23,329	–	23,329	22,700
	$ 633,173	$ 234,434	$ 398,739	$ 369,938

6. Capital assets (continued):

Included in buildings is $45,833,000 (2009 - $32,946,000) of construction in progress. As construction in progress in not yet in use, these assets are not amortized.

Cost and accumulated amortization at April 30, 2009 amounted to $582,200,000 and $212,262,000 respectively.

7. Art collection:

The University has an art collection comprising approximately 28,000 pieces of art. In 2010, there were additions of donated pieces of art at an appraised value of $629,000 (2009 - $345,000).

8. 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:

	2010	2009
Research	$ 26,781	$ 23,605
Grants	6,463	13,887
Student aid	5,874	5,908
Donations	4,953	4,167
Other	4,206	3,703
	$ 48,277	$ 51,270

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.

9. Long-term debt:

As at April 30, 2010, the University has principal outstanding of $62,572,000 (2009 - $76,181,000) under long-term mortgages and loans.

(a) Details of long-term debt:

	Maturity	Interest rate	Annual payment	2010 Principal outstanding	2009 Principal outstanding
Mortgages payable:					
Lanark and Renfrew Residences and University Commons	2013	5.375%	$ 86	$ 221	$ 293
Grenville and Russell Residences	2017	5.375%	79	431	485
Glengarry Residence	2020	6.375%	176	1,270	1,363
Stormont-Dundas Residence	2010	10.36%	1,222	–	11,800
				1,922	13,941
Loans payable:					
Leeds Residence	2012	6.724%	1,607	15,901	16,418
Prescott Residence	2013	6.299%	1,520	16,539	17,000
Frontenac Residence	2018	4.560%	846	14,451	14,634
NWRC loan	2028	6.460%	1,331	13,759	14,188
				60,650	62,240
				62,572	76,181
Less current portion of long-term debt				1,931	13,611
				$ 60,641	$ 62,570

Annual payment amounts include principal and interest.

(b) Long-term debt repayments:

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

2010	$ 1,931
2011	2,057
2012	2,171
2013	2,247
2014	2,395
Thereafter	51,771
	$ 62,572

9. Long-term debt (continued):

(c) Residence sinking fund:

A sinking fund was established for the purpose of accumulating funds to retire the $11,800,000 mortgage on the Stormont-Dundas Residence which matured on April 1, 2010. The full amount was paid out on maturity.

(d) Interest rate swaps:

The University has entered into interest rate swap agreements to manage the volatility of interest rates. The University converted a net notional $69,758,000 of floating rate debt for fixed rate debt ranging from 4.560% to 6.724%. The related derivative agreements are in place until the maturity of the debts in 2012, 2013, 2018 and 2028.

These interest rate swaps qualify, and have been designated by the University, as cash flow hedging items against the floating rate long-term debt. The University has assessed the hedging relationship as effective. The fair value of the interest rate swaps of $9,475,000 (2009 - $14,412,000) 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.

10. 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:

	2010	2009
Balance, beginning of year	$ 139,754	$ 131,891
Less amortization of deferred capital contributions	(10,184)	(9,253)
Add capital contributions received:		
Grants for equipment and buildings	39,246	16,804
Donated assets	452	312
	39,698	17,116
Balance, end of year	$ 169,268	$ 139,754

11. Internally restricted net assets:

	2010	2009
Appropriations	$ 120,745	$ 99,018
Research	14,474	14,736
Enterprise	3,111	3,096
Scholarships	7	6
	$ 138,337	$ 116,856

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

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

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

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

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

12. Investment in capital assets:

The investment in capital assets consists of the following:

	2010	2009
Capital assets	$ 398,739	$ 369,938
Less amounts financed by:		
Deferred capital contributions	(169,268)	(139,754)
Mortgages payable (net of residence sinking fund)	(1,922)	(2,359)
Loans payable (Leeds, Prescott, Frontenac residences)	(46,891)	(48,052)
Other short-term financing	(37,118)	(39,161)
	$ 143,540	$ 140,612

12. Investment in capital assets (continued):

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

	2010	2009
Capital assets additions:		
Total additions	$ 50,973	$ 42,779
Less:		
Contributions to art collection	(629)	(345)
Donated assets	(452)	(312)
Additions financed with grants	(39,246)	(16,804)
	10,646	25,318
Financing:		
Mortgages payable	437	207
Residence sinking fund	–	485
Loans payable	1,161	(13,673)
Other short-term financing	2,043	5,968
	3,641	(7,013)
Amortization of deferred capital contributions	10,184	9,253
Amortization of capital assets	(22,172)	(21,186)
	(11,988)	(11,933)
Net change in investment in capital assets	$ 2,299	$ 6,372

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.

13. Endowments (continued):

Investment income earned on endowed investments is distributed at a rate of 4.5% (2009 - 4.5%) of the moving average market value over four years of the endowment fund investments. Actual investment income earned in excess of the distributed amount is accumulated in the endowment fund for future distribution and to maintain capital.

	Externally endowed	Board designated	Total 2010	Total 2009
Donations and bequests	$ 4,989	$ –	$ 4,989	$ 8,415
Realized gain on sale of investments	2,857	11	2,868	6,543
Investment income	4,501	21	4,522	2,922
Income distributions	(10,030)	(79)	(10,109)	(9,661)
	2,317	(47)	2,270	8,219
Unrealized gain (loss) on investments	32,352	138	32,490	(59,673)
Net change in year	34,669	91	34,760	(51,454)
Fund balance, beginning of year	178,672	1,209	179,881	231,335
Fund balance, end of year	$ 213,341	$ 1,300	214,641	$ 179,881

	2010	2009
Cumulative endowment principal	$ 102,545	$ 97,556
Cumulative undistributed investment income	100,216	102,935
Cumulative unrealized gains (losses)	11,880	(20,610)
Endowment balance on endowment investments	$ 214,641	$ 179,881

14. 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, 2010, the University's future employee benefits liability and accrued benefit obligations are as follows:

	2010	2009
Accrued benefit obligation, beginning of year	$ 97,218	$ 64,134
Unamortized past service costs	(511)	(696)
Unamortized net actuarial gain/(loss)	(1,958)	28,570
Accrued benefit obligation, end of year	$ 94,749	$ 92,008

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.

Included in the consolidated statement of operations is an annual expense in the amount of $6,249,000 (2009 - $9,868,000) regarding employee future benefits. The annual expense includes the current service cost of employee benefits for the year and the interest cost for the unfunded accrued benefit obligation. During 2010, the University contributed $3,508,000 (2009 - $3,322,000) 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:

	2010	2009
Discount rate	5.50% - 6.00%	7.75% – 8.75%
Salary escalation	2.50%	5.00%
Dental benefits escalation	4.50%	4.50%
Drugs benefits escalation	4.50% to 9.00%	5.00% - 10.00%
Hospital benefits escalation	4.50%	4.50% - 8.00%

14. 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 2009.

	Increase	Decrease
Net benefit cost	$ 916	$ 737
Accrued benefit obligation	13,170	10,456

(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, 2007 determined that the Plan had a $900,000 unfunded going-concern liability and a $15,000,000 solvency surplus as at July 1, 2007. The going-concern liability is to be repaid over a period not to exceed 15 years as required under the Pension Benefits Act of Ontario. Amortization of the unfunded liability is expected to require special payments of $101,000 per year until 2022. The next actuarial valuation for funding purposes is required July 1, 2010.

An actuarial valuation for accounting purposes was performed as at April 30, 2010, 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:

	2010	2009
Accrued benefit obligation	$ 864,959	$ 676,825
Less: fair value of Plan assets	733,739	622,612
Plan deficit	131,220	54,213
Balance of unamortized actuarial loss	(123,175)	(54,213)
Accrued benefit liability	$ 8,045	$ –

14. Employee future benefits (continued):

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

(i) Accrued benefit liability (continued):

The accrued benefit liability balance is included in the employee future benefits liability on the consolidated statement of financial position. Amortization of the actuarial loss totalling $8,045,000 is included in employee future benefit expenses on the statement of operations.

The University contributed $12,443,000 (2009 - $11,285,000) to the pension plan during the year and this contribution is included in benefit expenses in the consolidated statement of operations.

(ii) Plan assets:

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

	2010	2009
Canadian equity securities	30%	29%
Non-Canadian equity securities	35%	33%
Fixed income debt securities	25%	33%
High yield debt	5%	1%
Global infrastructure	5%	4%

(iii) Assumptions:

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

	2010	2009
Pension benefit plans:		
Discount rate, benefit cost	6%	8.3%
Discount rate, benefit obligation	8.3%	8.3%
Rate of compensation increases	4.5%	5.0%
Expected long-term rate of return on plan assets	7.5%	7.5%

15. Contingent liabilities and commitments:

At April 30, 2010, commitments for future acquisitions, construction and renovations amounted to approximately $50,816,000 (2009 - $5,775,000).

Letters of credit totaling $7,633,000 (2009 - $7,935,000) were issued on behalf of the University at year-end.

16. 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 4 and 9.

(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:

	2010		2009	
	Fair value	Carrying value	Fair value	Carrying value
Investments	$ 220,308	$ 220,308	$ 190,524	$ 190,242
Loans payable	73,025	60,651	74,734	62,240
Mortgages payable	1,804	1,922	14,630	13,941
Interest rate swaps	9,475	9,475	14,412	14,412

16. 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.

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

	2010	2009
Decrease (increase) in accounts receivable	$ (13,525)	$ 15,827
Increase in prepaid expenses	(368)	(78)
Increase (decrease) in accounts payable and accrued liabilities	11,887	(6,816)
Decrease in deferred revenue	(2,993)	(6,928)
Increase (decrease) in accrued vacation pay	(407)	119
	$ (5,406)	$ 2,124

18. 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.

19. First Generation Pilot Project Initiatives:

For the period from January 1, 2009 to April 30, 2010, the University's financial statements included expenditures totaling $254,000 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.

20. Other revenue:

	2010	2009
Commissions and sponsorships	7,172	6,206
Medical insurance recoveries	1,634	1,521
Salary and benefit recoveries	1,609	1,567
Miscellaneous	7,361	6,728
	$ 17,776	$ 16,022

21. Other expenses:

	2010	2009
Equipment rental	$ 3,339	$ 3,434
Property taxes and insurance	2,697	2,561
Minor repair and upkeep	2,439	2,490
Banking and bad debts	2,536	1,734
Advertising and promotion	2,677	2,255
Communication	2,327	1,817
Miscellaneous	10,322	15,079
	$ 26,337	$ 29,370

22. 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 22(b).

The University also considers its endowments, as disclosed in notes 4(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.

22. 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 assets consist of the following:

	2010	2009
Appropriations	$ 35,817	$ 31,510
Specific reserves:		
Academic buildings	37,124	36,017
Pension liability reserve	28,976	14,902
Research initiatives	14,474	14,736
Ancillary reserve fund	12,190	8,877
Entrepreneurial initiatives	3,111	3,096
Student aid funds	1,710	1,683
Other projects and initiatives	4,935	6,035
	$ 138,337	$ 116,856

23. Comparative figures:

Certain 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2010.

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Schedule 1 - Consolidated Schedule of Changes in Ancillary Net Assets

Year ended April 30, 2010
(in thousands of dollars)

Unrestricted	Athletics	Bookstore	Graphic Services	Health Services
Revenues	$ 9,090	$ 1,236	$ 2,057	$ 2,771
Expenses	8,861	1,239	2,144	3,001
Excess (deficiency) of revenues over expenses	229	(3)	(87)	(230)
Net assets, beginning of year	(273)	–	–	(196)
Transfer from (to) non-ancillary unrestricted net assets	276	11	(192)	215
Appropriated to internally restricted net assets	(232)	(8)	–	–
Return of funds from internally restricted net assets	–	–	154	–
Unrestricted net assets, end of year	$ –	$ –	$ (125)	$ (211)
Internally restricted net assets				
Net assets, beginning of year	$ –	$ 206	$ 154	$ –
Appropriated from unrestricted net assets	232	8	–	–
Return of funds to unrestricted net assets	–	–	(154)	–
Net assets, end of year	$ 232	$ 214	$ –	$ –

	Ancillary Property Rentals	Parking	Residence and Food Services	University Centre	Ancillary Capital Fund	Total 2010	Total 2009
$	2,685	$ 3,930	$ 21,874	$ 495	$ 224	$ 44,362	$ 42,378
	1,941	2,233	17,423	417	–	37,259	36,446
	744	1,697	4,451	78	224	7,103	5,932
	801	–	–	–	–	332	(1,337)
	–	(175)	(3,532)	–	484	(2,913)	(207)
	–	(1,522)	(919)	(78)	(708)	(3,467)	(4,355)
	–	–	–	–	–	154	299
$	1,545	$ –	$ –	$ –	$ –	$ 1,209	$ 332
$	–	$ 3,743	$ 4,294	$ 26	$ 454	$ 8,877	$ 4,821
	–	1,522	919	78	708	3,467	4,355
	–	–	–	–	–	(154)	(299)
$	–	$ 5,265	$ 5,213	$ 104	$ 1,162	$ 12,190	$ 8,877

CARLETON UNIVERSITY

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

(in thousands of dollars)

Ontario Student Opportunity Trust Fund (Phase I)

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

The University has recorded the following amounts under the program:

	2010	2009
Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2010		
Fund balance at beginning of year	$ 16,916	$ 17,850
Funds re-allocated to OTSS	–	(934)
Fund balance at end of year	$ 16,916	$ 16,916

Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2010		
Balance, beginning of year	$ 1,595	$ 2,450
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	2,564	2,527
Bursaries awarded (total number: 2,647)	(2,764)	(3,382)
Balance, end of year	$ 1,395	$ 1,595

The market value of the endowment as at April 30, 2010 was $55,515,531 (2009 - $46,744,747).

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:

	2010	2009
Schedule of Changes in Endowment Fund Balance for the year ended April 30, 2010		
Fund balance at beginning of year	$ 4,551	$ 4,580
Funds re-allocated to OTSS	–	(29)
Fund balance at end of year	$ 4,551	$ 4,551
Schedule of Changes in Expendable Funds Available for Awards for the year ended April 30, 2010		
Balance, beginning of year	$ 123	$ 244
Realized investment income, net of direct investment-related expenses and preservation of capital contributions	283	284
Bursaries awarded (total number: 184)	(284)	(405)
Balance, end of year	$ 122	$ 123

The market value of the endowment as at April 30, 2010 was $6,102,524 (2009 - $5,118,487).

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

(in thousands of dollars)

Ontario Trust for Student Support

The externally restricted endowments include monies provided by the Government of Ontario from the Ontario Trust for Student Support matching program for the period April 1, 2009 to March 31, 2010 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:

		2010
Schedule of donations received between April 1, 2009 and March 31, 2010		
Cash donations matched between April 1, 2009 and March 31, 2010	$	686
Unmatched cash donations (received between April 1, 2009 and March 31, 2010)		–
Total cash donations	$	686
Schedule of Changes in Endowment Fund Balance for the period April 1, 2009 to March 31, 2010		
Balance, beginning of year	$	13,031
Eligible cash donations received between April 1, 2009 and March 31, 2010 in compliance with the November 2005 Program Guidelines and Reporting Requirements		686
Matching funds received/receivable from MTCU in 2009-10		686
Cash donations ineligible for match for the period between April 1, 2009 and March 31, 2010		38
Fund balance at end of year	$	14,441
Schedule of Changes in Expendable Funds Available for Awards for the period April 1, 2009 to March 31, 2010		
Balance, beginning of year	$	496
Realized investment income, net of direct investment-related expenses and preservation of capital contributions		692
Cash donations (received between April 1, 2009 and March 31, 2010)		7
Bursaries awarded (total number: 716)		(818)
Balance, end of year	$	377