Financial Statements

The University of St. Michael's College

April 30, 2014

Building a better
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INDEPENDENT AUDITORS' REPORT

To the Collegium of
The University of St. Michael's College

We have audited the accompanying financial statements of **The University of St. Michael's College**, which comprise the balance sheet as at April 30, 2014 and the statements of revenue and expenses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **The University of St. Michael's College** as at April 30, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada,
October 15, 2014.

The University of St. Michael's College

BALANCE SHEET

As at April 30

[000's]	2014 $	2013 $
ASSETS		
Current		
Cash	**6**	5
Accounts receivable	**974**	897
Prepaid expenses	**122**	107
Total current assets	**1,102**	1,009
Investments *[note 4]*	**105,854**	74,027
Capital assets, net *[note 5]*	**27,554**	26,688
	134,510	101,724
LIABILITIES AND NET ASSETS		
Current		
Bank indebtedness *[note 14]*	**8,398**	5,481
Accounts payable and accrued liabilities *[notes 16 and 17]*	**2,902**	2,976
Deferred revenue	**165**	236
Residence demand loans *[note 15]*	**7,895**	8,379
Interest rate swap *[note 15]*	**880**	1,292
Total current liabilities	**20,240**	18,364
Post-employment benefit liability *[note 11]*	**11,292**	11,834
Deferred contributions *[note 8]*	**18,055**	9,779
Deferred capital contributions *[note 9]*	**12,344**	11,627
Total non-current liabilities	**41,691**	33,240
Total liabilities	**61,931**	51,604
Commitments and contingencies *[notes 16 and 19]*		
Net assets		
Deficit	**(18,186)**	(24,731)
Internally restricted *[note 6]*	**8,301**	7,200
Endowments *[note 10]*	**82,464**	67,651
Total net assets	**72,579**	50,120
	134,510	101,724

See accompanying notes

On behalf of the Collegium:

Anne Anderson, csj

President

The University of St. Michael's College

STATEMENT OF REVENUE AND EXPENSES

Year ended April 30

[000's]	**2014** $	**2013** $
REVENUE		
Student fees	**7,907**	7,792
Block grant from the University of Toronto *[note 7]*	**5,356**	5,044
Grants and donations *[notes 8 and 12]*	**4,636**	3,026
Investment income *[note 4[b]]*	**2,953**	932
Sales and services	**1,965**	2,137
Amortization of deferred capital contributions *[note 9]*	**837**	871
Formula grants from the Toronto School of Theology	**353**	449
Sundry income	**799**	304
	24,806	20,555
EXPENSES		
Salaries and benefits	**9,506**	9,689
Materials and supplies	**3,347**	3,269
Cost of sales	**2,322**	2,271
Amortization	**2,125**	2,104
Repairs and maintenance	**1,279**	593
Utilities	**1,083**	1,106
Post-employment benefits [*note 11*]	**981**	1,332
Student awards	**787**	838
Interest	**540**	571
Other	**167**	546
	22,137	22,319
Net revenue (expense) before the following	**2,669**	(1,764)
Contribution from St. Michael's College Foundation *[note 12]*	**5,780**	—
Soil remediation provision *[note 16]*	**—**	(90)
Change in fair value of interest rate swap *[note 15]*	**412**	259
Net revenue (expense) for the year	**8,861**	(1,595)

See accompanying notes

The University of St. Michael's College

STATEMENT OF CHANGES IN NET ASSETS

Year ended April 30

[000's]	**Deficit** $	**Internally restricted** $	**Endowments** $	**Total** $
Net assets, April 30, 2012	(25,335)	6,923	66,306	47,894
Net expense for the year	(362)	(1,233)	—	(1,595)
Endowment contributions	—	—	182	182
Allocation of investment income *[note 4[b]]*	—	—	3,639	3,639
Internally restricted, net *[note 6]*	(1,510)	1,510	—	—
Transfers from internally restricted endowments, net *[note 10[a]]*	2,476	—	(2,476)	—
Net assets, April 30, 2013	**(24,731)**	**7,200**	**67,651**	**50,120**
Net revenue (expense) for the year	**10,149**	**(1,288)**	**—**	**8,861**
Endowment contributions *[note 12]*	**—**	**—**	**8,720**	**8,720**
Allocation of investment income *[note 4[b]]*	**—**	**—**	**4,664**	**4,664**
Internally restricted, net	**(2,389)**	**2,389**	**—**	**—**
Transfers to internally restricted endowments, net	**(1,215)**	**—**	**1,215**	**—**
Transfers from deferred contributions	**—**	**—**	**214**	**214**
Net assets, April 30, 2014	**(18,186)**	**8,301**	**82,464**	**72,579**

See accompanying notes

The University of St. Michael's College

STATEMENT OF CASH FLOWS

Year ended April 30

[000's]	**2014** $	**2013** $
OPERATING ACTIVITIES		
Net revenue (expense) for the year	**8,861**	(1,595)
Add (deduct) items not affecting cash:		
Change in fair value of interest rate swap	**(412)**	(259)
Amortization of capital assets	**2,125**	2,104
Amortization of deferred capital contributions	**(837)**	(871)
Donated investments	**(106)**	(95)
Increase in soil remediation provision	**—**	90
Net change in post-employment benefit liability	**(542)**	5
Net change in non-cash balances related to operations *[note 13]*	**8,265**	1,267
Cash provided by operating activities	**17,354**	646
INVESTING ACTIVITIES		
Purchase of investments, net	**(27,057)**	1,015
Additions to capital assets	**(2,991)**	(1,217)
Cash used in investing activities	**(30,048)**	(202)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	**2,917**	(502)
Endowment contributions	**485**	182
Endowment contributions – St. Michael's College Foundation	**8,235**	—
Contributions restricted for capital purposes	**1,542**	253
Repayment of residence demand loans	**(484)**	(378)
Cash provided by (used in) financing activities	**12,695**	(445)
Net increase (decrease) in cash during the year	**1**	(1)
Cash, beginning of year	**5**	6
Cash, end of year	**6**	5

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

April 30, 2014

1. PURPOSE OF THE ORGANIZATION

The University of St. Michael's College [the "University"] is a Catholic post-secondary educational and research institution federated with the University of Toronto. The University offers undergraduate courses in the arts and sciences through its Arts and Science Division, theological education of an academic and professional nature through its Faculty of Theology, and part-time special interest courses through its Continuing Education Division. Scholarships and bursaries are made available to qualifying students in order to promote academic excellence and to assist those students in financial need. A full residence programme is also offered to students in co-operation with Loretto College. The University is incorporated by an Act of the Ontario Legislature and is a registered charity under the Income Tax Act (Canada).

2. BASIS OF PRESENTATION

These financial statements reflect the assets, liabilities, net assets, revenue, expenses and other transactions of all of the University's operations. Included in these financial statements are costs of academic, administrative and other operating expenditures funded by fees, grants and other general revenue; ancillary operations, such as residences, food services and parking; and funds restricted for endowment purposes.

These financial statements do not include the accounts of St. Michael's College Foundation [the "Foundation"], which is a separate legal entity formed to encourage and promote education at the University. The Foundation distributes income, and periodically, unrestricted net assets to the University by way of grants for scholarships, bursaries and operating purposes *[note 12]*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Part III of the Chartered Professional Accountants of Canada ["CPA Canada"] Handbook – Accounting, which sets out generally accepted accounting principles for not-for-profit organizations in Canada and include the significant accounting policies summarized below.

Cash

Cash represents cash on deposit. Cash that is held for investing rather than for operating purposes is classified as long-term investments.

NOTES TO FINANCIAL STATEMENTS

Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions which have no restrictions are recognized as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Pledges receivable are not recorded in the accounts. Externally restricted contributions for purposes other than endowment are initially deferred and recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for amortizable capital assets are deferred and amortized over the useful lives of the assets to which they relate. Endowment contributions are recognized as direct increases in net assets in the year in which they are received. Student fees are recognized as revenue when the courses and seminars are held. Sales and service revenues are recognized at the point of sale, when goods are shipped and title passes, or when services are provided.

Contributed materials and services

Contributed materials and services are recorded at fair market value where such value can be reasonably estimated and they are used in the normal course of operations and would otherwise have been purchased.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at their fair value at the date of contribution. Donations and grants for the acquisition of capital assets are recorded as deferred capital contributions on the Balance Sheet.

Costs of new buildings and major renovations and improvements to existing buildings are generally financed from contributions or loans specifically designated for these purposes.

Financing costs relating to property undergoing major renovations are capitalized until substantial completion of the renovations.

Amortization is calculated using the straight-line method with rates based on the estimated useful lives of the assets as follows:

Buildings and major renovations	15 to 40 years
Furniture and equipment	5 to 10 years
Library books	5 years
Computer equipment	3 years

Contributed rare books, artwork and other collections are expensed in the year received.

Deferred capital contributions are amortized over the useful lives of the assets to which they relate.

Investments and investment income

Investments are valued at fair value based on the latest closing prices and pooled funds are valued based on reported net asset value per unit. Short-term investments are valued based on cost plus accrued income, which approximates fair value. Transactions are recorded on a trade date basis and transaction costs are expensed as incurred.

Investment income, consisting of interest, dividends, income distributions from pooled funds and realized and unrealized gains and losses, is recorded as revenue in the Statement of Revenue and Expenses except for investment income earned on endowments. Investment income earned on endowments which is available for spending and that must be spent on donor restricted activities is added to the respective deferred contribution balance. In years where investment income earned on endowments is in excess of the amount available for spending, the excess is recorded as a direct increase in endowments. In years where investment income earned is below the amount made available for spending, the shortfall is recorded as a direct decrease in endowments.

Foreign currency translation

The market value of investments denominated in foreign currencies is translated into Canadian dollars at the closing rate prevailing at the date of valuation. Purchases and sales of investments, income and expenses are recorded at the rate of exchange prevailing on the date of the transaction.

Post-employment benefits

The University maintains defined benefit plans providing pension and post-employment health benefits for most of its employees and accounts for these using the immediate recognition approach. Under this approach, the University recognizes the amount of the accrued obligation net of the fair value of plan assets in the Balance Sheet. Actuarial gains and losses and past service costs are included in the expense for the year. The accrued liability for pension plans is determined based on an actuarial valuation report for funding purposes. This report is required to be prepared at least on a triennial basis by the applicable regulations. The pension plan's assets are measured at fair value at the date of the Balance Sheet. The accrued liability for post-employment health benefits is determined based on an actuarial valuation using accounting assumptions that are prepared at least every three years. In years where an actuarial valuation is not prepared, the University uses a roll-forward technique to estimate the accrued liability using assumptions from the most recent actuarial valuation report.

Financial instruments

Derivative financial instruments are contracts that require or provide the opportunity to exchange cash flows or payments determined by applying certain rates, indices or changes to notional contract amounts. Derivative contracts are recorded at fair value as an asset or liability based on quoted market prices or dealer quotes. Under certain conditions, derivative contracts may qualify for hedge accounting. For these contracts, the effectiveness of the derivative in offsetting changes in cash flows attributable to the risk being hedged is measured. The effective portion of the change in fair value of the derivative contract is recorded in the Statement of Changes in Net Assets and the ineffective portion of the change in fair value of the derivative contract is recorded in the Statement of Revenue and Expenses. For derivative contracts that do not qualify for hedge accounting, the change in fair value of the contract is recorded in the Statement of Revenue and Expenses.

Other financial instruments, including accounts receivable and accounts payable are initially recorded at their fair value and are not subsequently revalued and continue to be carried at the value which represents cost, net of any provision for impairment.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenue and expenses and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of the valuation of pension and health benefits and the recording of contingencies. Actual amounts could differ from those estimates.

4. INVESTMENTS

The University's investment portfolio is comprised of pooled funds and short term cash instruments. These investments are held for endowments and deferred contributions.

[a] Investments at fair value consist of the following:

[000's]	**2014** $	**2013** $
Cash and cash equivalents	**21,170**	18,117
Pooled Fund Units		
Balanced	**61,282**	—
Tactical asset allocation and absolute return	**23,402**	—
Bonds	—	561
Canadian equities	—	1,086
International equities	—	7,294
Short-term notes	—	12,838
Canadian government bonds	—	2,559
Canadian corporate bonds	—	11,726
Canadian equities - common	—	12,301
International equities - common	—	7,545
	105,854	74,027

[b] Investment income recorded in the Statement of Revenue and Expenses is calculated as follows:

[000's]	**2014** $	**2013** $
Interest, dividends and pooled fund distributions	**2,214**	1,623
Gain realized on sale of investments	**5,804**	1,112
Change in unrealized gain on investments	**2,620**	3,210
	10,638	5,945
Less income allocated to		
Deferred contributions *[note 8]*	**3,021**	1,371
Deferred capital contributions *[note 9]*	—	3
Endowments	**4,664**	3,639
	2,953	932

The University has adopted a policy on externally restricted endowments with the intent of providing more consistency of investment income made available to support donor designated purposes, while continuing to protect the real value of the endowments. Investment income for the purposes of this policy includes interest, dividends and realized and unrealized gains and losses net of management fees. In any year, if investment returns are above a long run targeted payout rate, this excess amount will be transferred to the endowments and can be made available for future use in the event that net investment income is not sufficient in a year to provide the targeted payout rate. The policy continues to provide for inflation protection of endowments.

In 2014, $10,638,000 [2013 - $5,492,000] of net investment income was earned on endowments. The amount available for spending of $3,021,000 [2013 – $1,371,000] was recorded as deferred contributions and $2,953,000 [2013 - $932,000] earned on internally restricted endowments was recorded in the Statement of Revenue and Expenses. The excess amount of $4,664,000 [2013 - $3,639,000] was recorded directly in endowments for capital preservation.

5. CAPITAL ASSETS

Capital assets consist of the following:

	2014		**2013**	
[000's]	**Cost** $	**Accumulated amortization** $	**Cost** $	**Accumulated amortization** $
Land	**642**	**—**	642	—
Buildings and major renovations	**46,505**	**21,947**	43,883	20,606
Furniture and equipment	**4,490**	**2,708**	4,941	2,738
Library books	**1,145**	**671**	1,149	698
Computer equipment	**259**	**161**	284	169
	53,041	**25,487**	50,899	24,211
Less accumulated amortization	**25,487**		24,211	
Net book value	**27,554**		26,688	

6. INTERNALLY RESTRICTED NET ASSETS

Internally restricted net assets represent the amount of capital assets internally funded as follows:

[000's]	**2014** $	**2013** $
Capital assets, net	**27,544**	26,688
Less amounts financed by		
Deferred capital contributions *[note 9]*	**11,348**	11,109
Residence demand loans	**7,895**	8,379
	8,301	7,200

7. AGREEMENT WITH THE UNIVERSITY OF TORONTO

Under an agreement with the University of Toronto, dated July 1, 2008, the tuition fees for students in the Faculty of Arts and Science are paid over to the University of Toronto. In turn, the University of Toronto reimburses the University for certain operating costs through a block grant. This agreement is effective beginning July 1, 2008 for a period of 10 years, and is renewed automatically unless either party serves notice of intention not to renew three years before the next renewal date.

8. DEFERRED CONTRIBUTIONS

Deferred contributions are comprised of externally restricted grants, donations and related investment income for scholarships, bursaries and other purposes. The changes in the deferred contributions balance are as follows:

[000's]	**2014** $	**2013** $
Balance, beginning of year	**9,779**	7,702
Contributions received during the year	**8,106**	2,421
Investment income *[note 4[b]]*	**3,021**	1,371
Amounts recognized as grants and donations	**(2,625)**	(1,715)
Transfer to deferred capital contributions *[note 9]*	**(12)**	—
Transfer to externally restricted endowments	**(214)**	—
Balance, end of year	**18,055**	9,779

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized balance of donations and grants received for the purchase of capital assets. The changes in the deferred capital contributions balance are as follows:

[000's]	**2014** $	**2013** $
Balance, beginning of year	**11,627**	12,203
Contributions restricted for capital purposes	**1,542**	253
Investment income *[note 4[b]]*	**—**	3
Amortization of deferred capital contributions	**(837)**	(871)
Transfer from deferred contributions *[note 8]*	**12**	—
Amounts transferred from internally restricted net assets	**—**	39
Amounts recognized as grants and donations	**—**	—
Balance, end of year	**12,344**	11,627
Consisting of		
Contributions and income for which expenditures have been made	**21,645**	20,954
Accumulated amortization	**(10,297)**	(9,845)
	11,348	11,109
Contributions and income for which expenditures have not been made	**996**	518
	12,344	11,627

10. ENDOWMENTS

Endowments include restricted donations received by the University and donations designated by the Collegium in the exercise of its discretion as endowments, rather than as a result of externally imposed restrictions. In such cases, the Collegium may decide to remove the designation.

The endowment principal is required to be maintained intact. Investment income generated from endowments must be used in accordance with the various purposes established by the donors or the Collegium. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

[a] Endowments consist of the following:

[000's]	2014 $	2013 $
Externally restricted	**52,364**	38,766
Internally restricted	**30,100**	28,885
	82,464	67,651

During the year, the Collegium approved the use of $152,000 [2013 - $2,476,000] from internally endowed funds, and approved the internal restriction of $1,367,000 [2013 – nil] received from the Foundation *[note 12]*.

[b] Ontario Student Opportunity Trust Funds and Ontario Trust for Student Support

Included in externally restricted endowments are matching scholarship and bursary funds from the Government of Ontario and the University of Toronto related to the Ontario Student Opportunity Trust Funds ["OSOTF"] and the Ontario Trust for Student Support ["OTSS"]. The capital portion of the funds is externally restricted and the income portion is used to support students in financial need. Expendable income earned is recorded in deferred contributions and recognized as revenue in the year in which related scholarship and bursary expenses are recognized.

The following is a summary of the change in the cost of these endowment funds for the year:

	2014				2013
[000's]	OSOTF I $	OSOTF II $	OTSS $	Total $	Total $
Balance, beginning of year	**7,547**	**1,168**	**4,096**	**12,811**	12,560
Contributions received	**15**	**—**	**43**	**58**	62
Investment income [capital preservation]	**106**	**16**	**58**	**180**	189
Balance, end of year	**7,668**	**1,184**	**4,197**	**13,049**	12,811

Included in deferred contributions are funds available for student support. The change in the cost of these expendable funds for the year is calculated as follows:

	2014				2013
	OSOTF I	**OSOTF II**	**OTSS**	**Total**	**Total**
[000's]	$	$	$	$	$
Balance, beginning of year	**321**	**69**	**221**	**611**	455
Contributions received	**10**	**—**	**—**	**10**	—
Investment income	**1,406**	**142**	**440**	**1,988**	460
Bursaries awarded	**(236)**	**(13)**	**(69)**	**(318)**	(304)
Balance, end of year	**1,501**	**198**	**592**	**2,291**	611

The fair value of the OSOTF Phase I endowment and expendable funds at year-end is $10,083,000 [2013 - $8,481,500]. For the year ended April 30, 2014, there were 125 OSOTF Phase I award recipients [2013 - 53].

11. POST-EMPLOYMENT BENEFITS

The University sponsors a number of defined benefit plans providing pension, other retirement and post-employment health benefits for most of its employees.

Pension benefit plans include the Retirement Plan of The University of St. Michael's College [the "Retirement Plan"], which is a contributory defined benefit pension plan, and a supplementary executive retirement plan. Substantially all employees of the University are members of the Retirement Plan. Employees who belong to a religious order are required to contribute 7.4% of their gross salary to the Retirement Plan. All other employees are required to contribute 5.9% of their gross salary up to the yearly maximum pensionable earnings plus 7.4% of their gross salary in excess of the yearly maximum pensionable earnings. The University is required to provide the balance of the funding, based on triennial actuarial valuations, necessary to ensure that benefits will be fully provided for at retirement.

Health benefit plans represent the cost of certain medical benefits available to employees on retirement from the University. Contributions for post-employment health benefits are funded by the University and the retiree based on current premium rates.

The University measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at April 30 of each year. The most recent actuarial valuations of the pension plan and post-employment benefit plans were as of January 1, 2013 and May 1, 2013 respectively.

NOTES TO FINANCIAL STATEMENTS

April 30, 2014

Information about the University's defined benefit plans is as follows:

	2014		2013	
[000's]	**Pension plan** $	**Health benefits** $	**Pension plan** $	**Health benefits** $
Fair value of plan assets	**24,781**	**—**	21,826	—
Accrued benefit obligation	**28,144**	**7,929**	27,590	6,070
Funded status (deficit)	**(3,363)**	**(7,929)**	(5,764)	(6,070)

The following is a summary of the calculation of the net plan expense:

	2014		2013	
[000's]	**Pension plan $**	**Health benefits $**	**Pension plan** $	**Health benefits** $
Current service cost	**1,060**	**303**	1,080	148
Employee contributions	**(428)**	**—**	(410)	—
Interest on accrued benefits	**1,557**	**348**	1,584	256
Actuarial losses (gains)	**(3,273)**	**1,414**	(1,831)	500
Net plan expense	**(1,084)**	**2,065**	423	904

The following is a summary of the weighted average significant actuarial assumptions used in measuring the University's accrued benefit obligation and benefit expense:

[000's]	**2014** %	**2013** %
Accrued benefit obligation		
Discount rate		
Pension benefit plan	**5.75**	5.75
SERP	**3.75**	3.25
Health benefit plan	**4.60**	4.25
Rate of compensation increase		
Pension benefit plan*	**4.00**	4.00
SERP	**N/A**	N/A
Health benefit plan	**N/A**	N/A
Benefit expense		
Discount rate		
Pension benefit plan	**5.75**	6.00
SERP	**3.25**	4.75
Health benefit plan	**4.25**	4.75
Rate of compensation increase		
Pension benefit plan	**4.00**	4.00
SERP	**N/A**	N/A
Health benefit plan	**N/A**	N/A

*5% University of Toronto Faculty Association

In determining the expected cost of post-employment health benefit plans, it is assumed that dental care costs will increase by 4.0% [2013 – 4.0%] annually. The increase in extended health care costs is assumed to be 8.5% in 2014 [2013 - 6.5%], decreasing by 0.25% [2013 – 0.50%] per annum to an ultimate rate of 5.0%.

In the spring of 2011, the Ontario government enacted legislation to provide solvency funding relief to certain university pension plans. In a letter dated March 22, 2011 [and amended May 4, 2011] the University submitted an application for admission to the BPS Solvency Funding Relief Program. The University's application was accepted and it entered Stage 1 of the program. A savings target and strategies to achieve this target were set out in the University's Sustainability Application. The University negotiated with its employees to provide higher contribution rates to meet the targets. The Ministry of Finance of Ontario accepted a progress report submitted in

June 2013 demonstrating that the University has made substantial progress towards meeting the savings target and granted the University Stage 2 of the BPS Solvency Funding Relief Program in November 2013. This allows the University to amortize the special solvency payments as defined in the actuarial valuation of January 1, 2013 over ten years instead of five.

12. ST. MICHAEL'S COLLEGE FOUNDATION

The University has an economic interest in the Foundation. As at December 31, 2013 the unaudited net assets of the Foundation were approximately $1,991,000.

During the year, the Foundation approved the distribution of substantially all of its assets and fund balances in the amount of $20,065,000 [2013 - nil] to the University with the provision that the terms and conditions of original donors be honoured. The following is a summary of the amounts received from the Foundation:

[000's]	$
Balance sheet	
Endowments	**8,235**
Deferred contributions	**6,050**
Statement of revenue and expenses	
Contribution from St. Michael's College Foundation	**5,780**
	20,065

Of the total amount recognized in the University's financial statements, $19,960,000 was received and the remainder is a recorded as a receivable from the Foundation.

13. STATEMENT OF CASH FLOWS

The net change in non-cash balances related to operations consists of the following:

[000's]	**2014** $	**2013** $
Sources (uses) of cash		
Accounts receivable	**(77)**	(150)
Prepaid expenses	**(15)**	9
Accounts payable and accrued liabilities	**(74)**	848
Deferred revenue	**(71)**	(146)
Deferred contributions	**8,502**	706
	8,265	1,267

14. BANK INDEBTEDNESS

The University has a bank line of credit of $9,000,000 [2013 - $9,000,000]. As at April 30, 2014, $8,398,000 of the bank line of credit was utilized [2013 - $5,481,000]. The bank indebtedness is collateralized by a general security agreement. Effective March 1, 2012 the University entered into an interest offset arrangement [the "Arrangement"] with the bank. The Arrangement enables the University to consolidate account balances and provides interest on a net position. Under the Arrangement, the University pays interest on a pooled account at prime [2014 - 3%] and earns interest at prime less 1.75% or 1.70% depending on the balance.

15. RESIDENCE DEMAND LOANS

The University entered into a $12,000,000 banking facility in 2001 to finance construction of the St. Joseph Street residence building. The facility was fully drawn in 2002 and is now in the process of being repaid. The banking facility is collateralized by a general security agreement and is payable on demand. As at April 30, 2014, $7,895,000 [2013 - $8,379,000] is outstanding in connection with this facility.

To reduce the volatility of the interest cost on the residence financing, the University entered into an interest rate swap agreement [the "Agreement"] whereby, commencing on September 1, 2001, the interest rate on $11,500,000 of the outstanding residence demand loans was effectively fixed at 6.65% for a term of 15 years. Amounts outstanding under this financing that are not covered by the Agreement bear interest at the bank's prime rate plus 1.0%. As at April 30, 2014, this floating rate of interest was 4.00% [2013 - 4.00%]. The Agreement may be terminated at the option of the lender on the 10th anniversary date of the Agreement, whereas the University may terminate the Agreement at any time. Early termination of the Agreement will result in a payment or receipt equal to the fair value of the interest rate swap on the date of early termination. As at April 30, 2014, the unpaid principal on this component of the financing was $7,895,000 [2013 - $8,299,000]. If the University had exercised early termination of the Agreement at April 30, 2014, this would have resulted in an additional payment of $880,000 [2013 - $1,292,000]. The interest rate swap does not qualify for hedge accounting. Accordingly, the change in the fair value of the interest rate swap, a gain of $412,000 [2013 - $259,000], is recorded in the Statement of Revenue and Expenses.

Subject to the loans being payable on demand, the University's scheduled principal repayments of the amounts outstanding under the residence demand loans are as follows:

[000's]	$
2015	430
2016	459
2017	7,006

16. BAY STREET LAND SALE AND SOIL REMEDIATION

In 2008, the University sold a parcel of its land on Bay Street for total proceeds of $32,167,000.

As a condition of the sale of the Bay Street lands, the University remains liable for soil remediation costs related to the property. At the time of sale, these costs were estimated to be $1,400,000 and this amount was included within accounts payable and accrued liabilities. The most current estimate of the future costs is $500,000, which is unchanged from the prior year.

The liability for soil remediation costs has been determined based on the University's best estimate of the costs to be incurred. Actual costs for soil remediation will not be known until construction excavation has been completed. There could be a material change in this liability. Any change in the liability will be recorded in the Statement of Revenue and Expenses.

17. GOVERNMENT REMITTANCES PAYABLE

As at April 30, 2014, accounts payable and accrued liabilities include government remittances payable of $8,000 [2013 - $103,000].

18. FINANCIAL INSTRUMENTS

The University is subject to various financial risks through transactions in financial instruments.

Credit risk

The University is exposed to credit risk in connection with its accounts receivable and its investments because of the risk that one party to the financial instrument may cause a financial loss for the other party by failing to discharge an obligation. Accounts receivable are recorded net of an allowance for doubtful accounts of $5,000 [2013 - $45,000].

Currency risk

The University is exposed to currency risk with respect to its investments denominated in foreign currencies, including the underlying investments of its pooled funds denominated in foreign currencies, because the fair value and future cash flows will fluctuate due to the changes in the relative value of foreign currencies against the Canadian dollar.

Other price risk

The University is exposed to other price risk through changes in market prices [other than changes arising from interest rate or currency risks] in connection with its investments in pooled funds.

Liquidity risk

The University is exposed to liquidity risk to the extent that it will encounter difficulty in meeting obligations associated with its financial instruments.

19. COMMITMENTS AND CONTINGENCIES

Insurance

Effective July 1, 2008, the University became a member of a reciprocal exchange of insurance risks in association with 56 other Canadian universities. This self-insurance co-operative, the Canadian Universities Reciprocal Insurance Exchange ["CURIE"], involves a contractual agreement to share the insurable property and liability risks of member universities.

The projected cost of claims is funded through members' premiums based on actuarial projections. CURIE has obtained reinsurance from commercial insurers to cover claims in excess of $5,000,000 to a maximum of $1 billion per occurrence for property losses and claims in excess of $5,000,000 to a maximum of $30,000,000 per occurrence for liability and errors and omissions losses. In the event premiums are not sufficient to cover claims settlements, the member universities would be subject to assessments in proportion to their participation.

As a member of CURIE, the University will share in the claims and expenses incurred during the five-year underwriting period commencing July 1, 2008. As at December 31, 2013, the latest date that financial statements are available, CURIE had a surplus of $15,433,669 for the current underwriting period, of which the University's pro rata share is approximately 0.33%.

20. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 financial statements.