

Financial Statements

The University of St. Michael's College
April 30, 2015



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, 2015 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, 2015 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.

Toronto, Canada
September 23, 2015

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants



The University of St. Michael's College

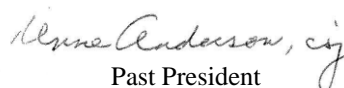
BALANCE SHEET

As at April 30

[000's]	2015 \$	2014 \$
		<i>[restated – note 19]</i>
ASSETS		
Current		
Cash	6	6
Accounts receivable <i>[note 11]</i>	472	974
Prepaid expenses	121	122
Total current assets	599	1,102
Investments <i>[note 3]</i>	111,618	105,854
Capital assets, net <i>[note 4]</i>	27,739	27,554
	139,956	134,510
LIABILITIES AND NET ASSETS		
Current		
Bank indebtedness <i>[note 13]</i>	7,316	8,398
Accounts payable and accrued liabilities <i>[notes 15 and 16]</i>	2,353	2,902
Deferred revenue	190	165
Residence demand loans <i>[note 14]</i>	7,465	7,895
Interest rate swap <i>[note 14]</i>	547	880
Total current liabilities	17,871	20,240
Post-employment benefit liability <i>[note 10]</i>	6,616	9,032
Deferred contributions <i>[note 7]</i>	17,757	17,030
Deferred capital contributions <i>[note 8]</i>	12,029	12,344
Total non-current liabilities	36,402	38,406
Total liabilities	54,273	58,646
Commitments and contingencies <i>[notes 15 and 18]</i>		
Net assets		
Deficit	(7,674)	(15,926)
Internally restricted <i>[note 5]</i>	9,039	8,301
Endowments <i>[note 9]</i>	84,318	83,489
Total net assets	85,683	75,864
	139,956	134,510

See accompanying notes

On behalf of the Collegium:


Past President

The University of St. Michael's College

STATEMENT OF REVENUE AND EXPENSES

Year ended April 30

[000's]	2015 \$	2014 \$
		<i>[restated – note 19]</i>
REVENUE		
Student fees	7,891	7,907
Block grant from the University of Toronto <i>[note 6]</i>	5,473	5,356
Grants and donations <i>[notes 7 and 11]</i>	4,230	4,636
Investment income <i>[note 3[b]]</i>	3,012	2,953
Sales and services	2,092	1,965
Amortization of deferred capital contributions <i>[note 8]</i>	828	837
Formula grants from the Toronto School of Theology	315	353
Sundry income	457	799
	24,298	24,806
EXPENSES		
Salaries and benefits	9,409	9,506
Materials and supplies	4,295	3,347
Cost of sales	2,366	2,322
Amortization of capital assets	2,185	2,125
Post-employment benefits	1,515	1,689
Utilities	1,128	1,083
Student awards	866	787
Repairs and maintenance	812	1,279
Interest	512	540
Other	268	167
	23,356	22,845
Net revenue before the following	942	1,961
Change in fair value of interest rate swap <i>[note 14]</i>	333	412
Contribution from St. Michael's College Foundation <i>[note 11]</i>	—	5,780
Net revenue for the year	1,275	8,153

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, 2013 <i>[restated</i>				
<i>– note 19]</i>	(24,067)	7,200	67,651	50,784
Net revenue for the year	8,153	—	—	8,153
Remeasurements related to post-employment benefits	2,304	—	—	2,304
Endowment contributions <i>[note 11]</i>	—	—	9,745	9,745
Allocation of investment income <i>[note 3[b]]</i>	—	—	4,664	4,664
Internally restricted, net <i>[note 5]</i>	(1,101)	1,101	—	—
Transfers from internally restricted endowments, net <i>[note 9[a]]</i>	(1,215)	—	1,215	—
Transfers from deferred contributions <i>[note 7]</i>	—	—	214	214
Net assets, April 30, 2014 <i>[restated</i>				
<i>– note 19]</i>	(15,926)	8,301	83,489	75,864
Net revenue for the year	1,275	—	—	1,275
Remeasurements related to post-employment benefits	1,643	—	—	1,643
Endowment contributions <i>[note 11]</i>	—	—	1,047	1,047
Allocation of investment income <i>[note 3[b]]</i>	—	—	5,854	5,854
Internally restricted, net <i>[note 5]</i>	(738)	738	—	—
Transfers from internally restricted endowments, net <i>[note 9[a]]</i>	6,072	—	(6,072)	—
Net assets, April 30, 2015	(7,674)	9,039	84,318	85,683

See accompanying notes

The University of St. Michael's College

STATEMENT OF CASH FLOWS

Year ended April 30

[000's]	2015 \$	2014 \$
		<i>[restated - note 19]</i>
OPERATING ACTIVITIES		
Net revenue for the year	1,275	8,153
Add (deduct) items not affecting cash:		
Change in fair value of interest rate swap	(333)	(412)
Amortization of capital assets	2,185	2,125
Amortization of deferred capital contributions	(828)	(837)
Donated investments	(40)	(106)
Net change in post-employment benefit liability	(773)	166
Net change in non-cash balances related to operations <i>[note 12]</i>	719	8,265
Cash provided by (used in) operating activities	2,205	17,354
INVESTING ACTIVITIES		
Purchase of investments, net	130	(27,057)
Additions to capital assets	(2,370)	(2,991)
Cash used in investing activities	(2,240)	(30,048)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	(1,082)	2,917
Endowment contributions	1,047	485
Endowment contributions – St. Michael's College Foundation	—	8,235
Contributions restricted for capital purposes	500	1,542
Repayment of residence demand loans	(430)	(484)
Cash provided by financing activities	35	12,695
Net increase in cash during the year	—	1
Cash, beginning of year	6	5
Cash, end of year	6	6

See accompanying notes

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

1. DESCRIPTION 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).

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.

2. 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 includes the significant accounting policies summarized below.

Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants. Contributions which have no restrictions are recorded 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 recorded as direct increases in net assets in the year in which they are received. Student fees are recorded as revenue when courses and seminars are held. Sales and service revenue is recorded at the point of sale, when goods are shipped and title passes, or when services are provided.

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

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

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.

Cash and cash equivalents

Cash and cash equivalents represents cash on deposit and short-term investments with a short term to maturity of approximately three months or less from the date of purchase unless they are held for investment purposes rather than for liquidity purposes, in which case they are classified as long-term investments.

Financial instruments

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.

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.

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.

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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.

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. Current service and finance costs are expensed during the year, while remeasurements and other items, representing the total of the difference between actual and expected return on plan assets, actuarial gains and losses, and past service costs, are recognized as a direct increase or decrease in net assets. 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 prepared on a basis consistent with the funded pension plan. 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.

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.

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

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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.

Gains or losses arising from these translations are included in net revenue except to the extent that they relate to investments, in which case they are recognized in the same manner as investment income.

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.

3. INVESTMENTS

The University's investment portfolio consists of cash and cash equivalents and Canadian and global pooled equity funds. These investments are held for endowments and deferred contributions.

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

[000's]	2015 \$	2014 \$
Cash and cash equivalents	13,928	21,170
Pooled fund units		
Balanced	69,868	61,282
Tactical asset allocation and absolute return	27,822	23,402
	111,618	105,854

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

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

[000's]	2015 \$	2014 \$
Interest, dividends and pooled fund distributions	4,179	2,214
Gain realized on sale of investments	1,831	5,804
Change in unrealized gain on investments	5,245	2,620
	11,255	10,638
Less income allocated to		
Deferred contributions [note 7]	2,389	3,021
Endowments	5,854	4,664
	3,012	2,953

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. The amount of income made available for spending is based on a range of 3%-5% of the opening market value of the endowment net assets plus one-half of new contributions during the year. 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 2015, \$11,255,000 [2014 – \$10,638,000] of net investment income was earned on endowments. The amount available for spending of \$2,389,000 [2014 – \$3,021,000] was recorded as deferred contributions and \$3,012,000 [2014 – \$2,953,000] earned on internally restricted endowments was recorded in the Statement of Revenue and Expenses. The excess amount of \$5,854,000 [2014 – \$4,664,000] was recorded directly in endowments for capital preservation.

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

4. CAPITAL ASSETS

Capital assets consist of the following:

[000's]	2015		2014	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Land	642	—	642	—
Buildings and major renovations	48,132	23,219	46,505	21,947
Furniture and equipment	3,979	2,414	4,490	2,708
Library books	1,153	643	1,145	671
Computer equipment	264	155	259	161
	54,170	26,431	53,041	25,487
Less accumulated amortization	26,431		25,487	
Net book value	27,739		27,554	

5. INTERNALLY RESTRICTED NET ASSETS

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

[000's]	2015 \$	2014 \$
Capital assets, net	27,739	27,554
Less amounts financed by		
Deferred capital contributions [note 8]	11,236	11,358
Residence demand loans [note 14]	7,465	7,895
	9,039	8,301

6. 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 ten years, and is renewed automatically unless either party serves notice of intention not to renew three years before the next renewal date.

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

In addition, the University has entered into a separate operating agreement with the University of Toronto that provides for certain financial and accountability arrangements. The agreement is effective for a period of five years beginning June, 2008, and is renewed automatically for another five years unless either party serves notice of intention not to renew before the next renewal date. The agreement is currently operating within its first automatic renewal term; however, the parties are currently re-negotiating the terms of the agreement.

7. DEFERRED CONTRIBUTIONS

Deferred contributions consist 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]	2015 \$	2014 \$
		<i>[restated - note 19]</i>
Balance, beginning of year	17,030	9,779
Contributions received during the year <i>[note 11]</i>	1,476	7,081
Investment income <i>[note 3[b]]</i>	2,389	3,021
Amounts recognized as grants and donations	(3,125)	(2,625)
Transfer to deferred capital contributions <i>[note 8]</i>	(13)	(12)
Transfer to externally restricted endowments	—	(214)
Balance, end of year	17,757	17,030

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

8. 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]	2015 \$	2014 \$
Balance, beginning of year	12,344	11,627
Contributions restricted for capital purposes	500	1,542
Amortization of deferred capital contributions	(828)	(837)
Transfer from deferred contributions <i>[note 7]</i>	13	12
Balance, end of year	12,029	12,344
Consisting of		
Contributions and income for which expenditures have been made	21,830	21,645
Accumulated amortization	(10,594)	(10,287)
	11,236	11,358
Contributions and income for which expenditures have not been made	793	986
	12,029	12,344

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

9. 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]	2015 \$	2014 \$
		<i>[restated - note 19]</i>
Externally restricted <i>[note 8]</i>	60,290	53,389
Internally restricted	24,028	30,100
	84,318	83,489

During the year, the use of \$7,044,000 [2014 – \$152,000] from internally endowed funds and the internal restriction of \$972,000 [2014 – \$1,367,000] was approved by the Collegium or made in accordance with the approved policies of the University.

[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 University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

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

[000's]	2015				2014
	OSOTF I \$	OSOTF II \$	OTSS \$	Total \$	Total \$
Balance, beginning of year	7,663	1,185	4,201	13,049	12,811
Contributions received	38	—	38	76	58
Transfers	12	—	—	12	—
Investment income [capital preservation]	177	27	97	301	180
Balance, end of year	7,890	1,212	4,336	13,438	13,049

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:

[000's]	2015				2014
	OSOTF I \$	OSOTF II \$	OTSS \$	Total \$	Total \$
Balance, beginning of year	1,501	198	592	2,291	611
Contributions received	—	—	—	—	10
Transfers	(12)	—	—	(12)	—
Investment income	552	84	293	929	1,988
Bursaries awarded	(344)	(23)	(93)	(460)	(318)
Balance, end of year	1,697	259	792	2,748	2,291

The fair value of the OSOTF Phase I endowment and expendable funds at year-end is \$11,067,000 [2014 – \$10,083,000]. For the year ended April 30, 2015, there were 129 [2014 – 125] OSOTF Phase I award recipients.

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

10. 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 at January 1, 2013 and May 1, 2013, respectively.

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

	2015		2014	
	Pension plan	Health benefits	Pension plan	Health benefits
[000's]	\$	\$	\$	\$
Fair value of plan assets	28,128	—	24,781	—
Accrued benefit obligation	28,500	6,244	27,940	5,873
Funded status – deficit	(372)	(6,244)	(3,159)	(5,873)

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

11. ST. MICHAEL'S COLLEGE FOUNDATION

The University has an economic interest in the Foundation. As at December 31, 2014, the unaudited net assets of the Foundation were approximately \$1,986,458 [2013 – \$1,991,000].

During the Foundation's fiscal 2013, the Foundation approved the distribution of substantially all of its assets and fund balances in the amount of \$20,065,000 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 by the University from the Foundation in fiscal 2014:

[000's]	\$
Balance sheet	
Endowments	8,235
Deferred contributions <i>[note 7]</i>	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 during the year ended April 30, 2014, \$19,960,000 was received and the remaining \$105,000 was recorded as a receivable from the Foundation, and remains receivable as at April 30, 2015. During the year ended April 30, 2015, the University did not receive any further distributions from the Foundation.

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

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12. STATEMENT OF CASH FLOWS

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

[000's]	2015 \$	2014 \$
Sources (uses) of cash		
Accounts receivable	502	(77)
Prepaid expenses	1	(15)
Accounts payable and accrued liabilities	(549)	(74)
Deferred revenue	25	(71)
Deferred contributions	740	8,502
	719	8,265

13. BANK INDEBTEDNESS

The University has a bank line of credit of \$9,000,000 [2014 – \$9,000,000]. As at April 30, 2015, \$7,316,000 of the bank line of credit was utilized [2014 – \$8,398,000]. The bank indebtedness is collateralized by a general security agreement. Effective January 6, 2014, 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 2.85% [2014 – 3%] and earns interest at prime less 1.75% or 1.70% depending on the balance.

14. 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, 2015, \$7,465,000 [2014 – \$7,895,000] is outstanding in connection with this facility.

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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, 2015, this floating rate of interest was 3.85% [2014 – 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, 2015, the unpaid principal on this component of the financing was \$7,465,000 [2014 – \$7,895,000]. If the University had exercised early termination of the Agreement as at April 30, 2015, this would have resulted in an additional payment of \$547,000 [2014 – \$880,000]. 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 \$332,000 [2014 – \$412,000], 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]	\$
2016	459
2017	7,006

15. 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.

The University of St. Michael's College

NOTES TO FINANCIAL STATEMENTS

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16. GOVERNMENT REMITTANCES PAYABLE

As at April 30, 2015, accounts payable and accrued liabilities include government remittances payable of \$11,000 [2014 – \$8,000].

17. 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 \$8,000 [2014 – \$5,000].

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.

NOTES TO FINANCIAL STATEMENTS

April 30, 2015

18. 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, 2014, the latest date that financial statements are available, CURIE had a surplus of \$74,230,527 for the current underwriting period, of which the University's pro rata share is approximately 0.33%.

19. FINANCIAL STATEMENT RESTATEMENTS

[a] Externally restricted endowments

During the year, the University identified contributions received in the prior year with external restrictions requiring them to be maintained as endowments and reclassified them to externally restricted endowments. As a result of this adjustment, deferred contributions have increased by \$1,025,000 and endowments have decreased by \$1,025,000 as at April 30, 2014.

[b] Adoption of reporting employee future benefits by not-for-profit organizations

Effective May 1, 2014, the University adopted Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations*, of the CPA Canada Handbook - *Accounting*, on a retrospective basis. Section 3463.01 provides that a not-for-profit organization applies Section 3462 except as otherwise provided for in Section 3463.

In accordance with Section 3463, remeasurements and other items are recognized directly in net assets in the balance sheet, rather than in the statement of revenue and expenses, and presented as a separately identified item in the statement of changes in net assets.

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NOTES TO FINANCIAL STATEMENTS

April 30, 2015

The following table provides a reconciliation of the net assets as at May 1, 2013 and the net revenue for the year ended April 30, 2014, as previously reported with those computed after adopting Section 3463:

[000's]	Net revenue for the year ended April 30, 2014 \$	Net assets as at May 1, 2013 \$
Net revenue for the year and net assets – as previously reported	8,861	50,120
Remeasurements related to post-employment benefits	(708)	664
Net revenue for the year and net assets - restated	8,153	50,784

In adopting Section 3463, the University now determines its obligations for unfunded plans using pension plan funding assumptions rather than using accounting assumptions, which resulted in a reduction to the post-employment benefit liability and an increase in net assets of \$664,000 as at May 1, 2013.

Using funding assumptions, post-employment benefit expenses decreased \$1,151,000. Actuarial gains increased \$445,000 to \$2,304,000 and have now been recognized directly in the statement of changes in net assets, resulting in a net decrease in post-employment benefits expense of \$708,000 in the statement of revenue and expenses for the year ended April 30, 2014.

