Financial statements

The University of St. Michael's College

April 30, 2017

EY

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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, 2017 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, 2017 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
September 21, 2017

The University of St. Michael's College

Balance sheet

As at April 30

	2017	2016
	$[000s]	$[000s]
Assets		
Current		
Cash	**1,835**	12
Accounts receivable *[notes 11 and 17]*	**748**	1,011
Prepaid expenses	**251**	152
Total current assets	**2,834**	1,175
Investments *[note 3[a]]*	**114,527**	104,177
Post-employment benefit asset *[note 10]*	**496**	—
Capital assets, net *[note 4]*	**29,626**	29,034
	147,483	134,386
Liabilities and net assets		
Current		
Bank indebtedness *[note 13]*	**7,274**	6,504
Accounts payable and accrued liabilities *[notes 15 and 16]*	**3,572**	3,054
Deferred revenue	**614**	344
Residence demand loans *[note 14[a]]*	**6,836**	7,006
Interest rate swap *[note 14[a]]*	**1**	157
Total current liabilities	**18,297**	17,065
Post-employment benefit liability *[note 10]*	**5,380**	7,591
Deferred contributions *[note 7]*	**19,906**	19,287
Deferred capital contributions *[note 8]*	**11,660**	11,769
Total liabilities	**55,243**	55,712
Commitments and contingencies *[notes 15 and 18]*		
Net assets		
Deficit	**(6,144)**	(9,390)
Internally restricted *[note 5]*	**11,827**	11,048
Endowments *[note 9]*	**86,557**	77,016
Total net assets	**92,240**	78,674
	147,483	134,386

See accompanying notes

On behalf of the Collegium:

President

The University of St. Michael's College

Statement of Revenue and Expenses

Year ended April 30

	2017 $[000s]	2016 $[000s]
Revenue		
Student fees	**8,511**	8,515
Block grant from the University of Toronto *[note 6]*	**5,972**	5,679
Grants and donations *[notes 7 and 9[c]]*	**4,531**	5,038
Investment income (loss) *[note 3[b]]*	**3,813**	(57)
Sales and services	**2,616**	2,419
Amortization of deferred capital contributions *[note 8]*	**967**	848
Formula grants from the Toronto School of Theology	**317**	274
Sundry income	**489**	425
	27,216	23,141
Expenses		
Salaries and benefits	**10,478**	10,366
Materials and supplies	**4,142**	4,142
Cost of sales	**2,932**	2,668
Amortization of capital assets	**2,488**	2,348
Post-employment benefits *[note 10]*	**1,502**	1,435
Utilities	**1,275**	1,182
Student awards	**890**	1,105
Repairs and maintenance	**495**	664
Interest *[notes 13 and 14]*	**256**	481
Other	**240**	320
	24,698	24,711
Net revenue (expense) before the following	**2,518**	(1,570)
Change in fair value of interest rate swap *[note 14[a]]*	**156**	390
Net revenue (expense)	**2,674**	(1,180)

See accompanying notes

The University of St. Michael's College

Statement of changes in net assets

Year ended April 30

	Deficit $[000s]	Internally restricted $[000s]	Endowments $[000s]	Total $[000s]
Net assets, April 30, 2015	(7,674)	9,039	84,318	85,683
Net expense for the year	(1,180)	—	—	(1,180)
Remeasurements related to post-employment benefits	(1,694)	—	—	(1,694)
Endowment contributions	—	—	276	276
Reclassification of endowment contributions *[note 9[c]]*	—	—	(1,109)	(1,109)
Allocation of investment income (loss) *[note 3[b]]*	—	—	(3,302)	(3,302)
Internally restricted, net *[note 5]*	(2,009)	2,009	—	—
Transfers from internally restricted endowments, net *[note 9[a]]*	3,167	—	(3,167)	—
Net assets, April 30, 2016	**(9,390)**	**11,048**	**77,016**	**78,674**
Net revenue for the year	**2,674**	—	—	**2,674**
Remeasurements related to post-employment benefits	**1,974**	—	—	**1,974**
Endowment contributions	—	—	**2,259**	**2,259**
Allocation of investment income (loss) *[note 3[b]]*	—	—	**6,659**	**6,659**
Internally restricted, net *[note 5]*	**(779)**	**779**	—	—
Transfers to internally restricted endowments, net *[note 9[a]]*	**(623)**	—	**623**	—
Net assets, April 30, 2017	**(6,144)**	**11,827**	**86,557**	**92,240**

See accompanying notes

The University of St. Michael's College

Statement of cash flows

Year ended April 30

	2017 $[000s]	2016 $[000s]
Operating activities		
Net revenue (expense)	**2,674**	(1,180)
Add (deduct) items not affecting cash:		
Donated investments	**(124)**	(60)
Amortization of deferred capital contributions	**(967)**	(848)
Amortization of capital assets	**2,488**	2,348
Change in fair value of interest rate swap	**(156)**	(390)
	3,915	(130)
Employee benefits expense related to		
post-employment benefit liability	**1,502**	1,435
Net change in non-cash balances related to operations *[note 12]*	**1,583**	1,782
	7,000	3,087
Cash provided by operating activities		
Investing activities	**(3,567)**	4,199
Net change in investments	**(3,080)**	(3,643)
Additions to capital assets	**(6,647)**	556
Cash provided by (used in) investing activities		
Financing activities	**770**	(812)
Increase (decrease) in bank indebtedness	**846**	621
Contributions restricted for capital purposes	**(170)**	(459)
Repayment of residence demand loans	**(2,235)**	(2,154)
Employer contributions related to post-employment benefit liability	**2,259**	276
Endowment contributions	**—**	(1,109)
Reclassification of endowment contributions *[note 9[c]]*	**1,470**	(3,637)
Cash provided by (used in) financing activities		
	1,823	6
Net increase in cash during the year	**12**	6
Cash, beginning of year	**1,835**	12
Cash, end of year		

See accompanying notes

Notes to financial statements

April 30, 2017

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 *[note 11]*.

2. Summary of significant accounting policies

These financial statements are prepared in accordance with Part III of the *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 government grants, bequests and other donations. Grants and bequests are recorded as revenue when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Other donations are recorded when received, since pledges are not legally enforceable claims. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions, except endowment contributions, are initially deferred when recorded in the accounts 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. Externally restricted endowment contributions are recognized 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 services revenue is recorded at the point of sale, when goods are shipped and title passes, or when services are provided.

Investment income (loss), which consists 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 to the extent it is externally restricted, in which case it is added to or deducted from endowment net assets or other restricted balances.

Cash and cash equivalents

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

Alternative investments are comprised of investments in private equity pooled funds and are valued at the net asset value per unit reported by the fund manager, which represents fair value.

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, and are used to manage interest volatility on residence financing. Derivative contracts are recorded at fair value as an asset or liability based on quoted market prices or dealer quotes, with changes in fair value of the contract during the year being 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 subsequently measured at 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.

Financing costs relating to property undergoing major renovations are not 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 as 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 those 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.

Foreign currency translation

Investments denominated in foreign currencies are translated into Canadian dollars at the closing rate prevailing as at the Balance Sheet date. Purchases and sales of investments, revenue 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 (loss).

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 include the assumptions used in the determination of the valuation of pension and post-employment health benefits and the recording of contingencies. Actual results 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 consist of the following:

	2017	2016
	$[000s]	$[000s]
Cash and cash equivalents	**130**	11,017
Pooled funds units		
Balanced	**80,895**	65,587
Tactical asset allocation and absolute return	**33,502**	27,573
	114,527	104,177

Notes to financial statements

April 30, 2017

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

	2017 $[000s]	2016 $[000s]
Interest, dividends and pooled fund distributions	**2,994**	5,092
Gain realized on sale of investments	**150**	2,982
Change in unrealized gain on investments	**9,912**	(8,583)
	13,056	(509)
Less income (loss) allocated to		
Deferred contributions *[note 7]*	**2,584**	2,850
Endowments *[note 9[a]]*	**6,659**	(3,302)
	3,813	(57)

4. Capital assets

Capital assets consist of the following:

	2017		2016	
	Cost $[000s]	**Accumulated amortization** $[000s]	**Cost** $[000s]	**Accumulated amortization** $[000s]
Land	**642**	**—**	642	—
Buildings and major renovations	**53,301**	**26,265**	50,897	24,634
Furniture and equipment	**4,154**	**2,862**	3,911	2,500
Library books	**1,210**	**677**	1,205	667
Computer equipment	**324**	**201**	393	213
	59,631	**30,005**	57,048	28,014
Less accumulated amortization	**30,005**		28,014	
Net book value	**29,626**		29,034	

Fully amortized assets of $497,000 [2016 – $765,000] have been removed from cost and accumulated amortization as they are no longer in use.

5. Internally restricted net assets

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

	2017 $[000s]	2016 $[000s]
Capital assets, net	**29,626**	29,034
Less amounts financed by		
Deferred capital contributions *[note 8]*	**10,963**	10,980
Residence demand loans *[note 14]*	**6,836**	7,006
	11,827	11,048

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 at least three years before the next renewal date.

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 in 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.

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:

	2017 $[000s]	2016 $[000s]
Balance, beginning of year	**19,287**	17,757
Contributions received during the year *[note 9[c]]*	**1,673**	2,490
Investment income *[note 3[b]]*	**2,584**	2,850
Amounts recognized as grants and donations	**(3,626)**	(3,843)
Transfer from (to) deferred capital contributions *[note 8]*	**(12)**	33
Balance, end of year	**19,906**	19,287

Grants and donations of $4,531 [2016 – $5,038] include revenue of $3,626 [2016 – $3,843] equal to related expenses incurred.

8. Deferred capital contributions

The changes in the deferred capital contributions balance are as follows:

	2017 $[000s]	2016 $[000s]
Balance, beginning of year	**11,769**	12,029
Contributions restricted for capital purposes	**846**	621
Amortization of deferred capital contributions	**(967)**	(848)
Transfer from (to) deferred contributions *[note 7]*	**12**	(33)
Balance, end of year	**11,660**	11,769
Consisting of		
Contributions and income for which expenditures have been made	**22,670**	21,873
Accumulated amortization	**(11,707)**	(10,893)
	10,963	10,980
Contributions and income for which expenditures have not been made	**697**	789
	11,660	11,769

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 preserved. 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.

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 currently made available for spending is based on a range of 3% to 5% of the sum of the opening market value of the endowment net assets plus one-half of new contributions during the year. In any particular year, if investment income exceeds the amount made available for spending, the excess will be recognized as a direct increase in endowment net assets and available for future use. In the event that net investment income is insufficient to fund the amount made available for spending, or the investment return is negative, the shortfall will be recognized as a direct decrease in endowment net assets.

[a] Endowments consist of the following:

	2017	2016
	$[000s]	$[000s]
Externally restricted	**64,997**	56,079
Internally restricted	**21,560**	20,937
	86,557	77,016

In 2017, $12,121,000 of net investment income was earned on endowment investments. The amount made available for spending of $2,584,000 was recorded as deferred contributions and $2,878,000 earned on internally restricted endowments was recorded in the Statement of Revenue and Expenses. The excess amount of $6,659,000 was recorded directly in endowment net assets.

In 2016, there was a net investment loss of $509,000 on investments held for endowments. The amount made available for spending of $2,850,000 was recorded as deferred contributions. Investment loss of $3,302,000 related to externally restricted endowments was recorded directly in endowment net assets. Investment loss of $57,000 relating to internally restricted endowments was recorded in the Statement of Revenue and Expenses.

During the year, the use of $179,000 [2016 – $3,632,000] from internally endowed funds and the internal restriction of $802,000 [2016 – $465,000] 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 following is a summary of the change in the cost of these endowment funds for the year:

	2017				2016
	OSOTF I	OSOTF II	OTSS	Total	Total
	$[000s]	$[000s]	$[000s]	$[000s]	$[000s]
Balance, beginning of year	**8,071**	**1,239**	**4,412**	**13,722**	13,438
Contributions received	**45**	—	**11**	**56**	21
Transfers	—	—	—	—	(33)
Investment income [capital preservation]	**89**	**14**	**48**	**151**	296
Balance, end of year	**8,205**	**1,253**	**4,471**	**13,929**	13,722

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:

	2017				2016
	OSOTF I	**OSOTF II**	**OTSS**	**Total**	**Total**
	$[000s]	$[000s]	$[000s]	$[000s]	$[000s]
Balance, beginning of year	**2,235**	**317**	**1,045**	**3,597**	2,748
Investment income [capital preservation]	**297**	**44**	**157**	**498**	1,317
Bursaries awarded	**(270)**	**(43)**	**(144)**	**(457)**	(468)
Balance, end of year	**2,262**	**318**	**1,058**	**3,638**	3,597

The fair value of the OSOTF Phase I endowment and expendable funds at year-end is $10,467,000 [2016 – $10,773,000]. For the year ended April 30, 2017, there were 36 [2016 – 63] OSOTF Phase I award recipients.

[c] In 2016, the University undertook a review of its endowment and expendable funds. As a result of this review, externally restricted endowment fund balances of $1,109 were reclassified upon clarification of the donor's intentions, which were recorded as follows: $1,058 to deferred contributions *[note 7]* and $51 to grants and donations in the Statement of Revenue and Expenses.

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 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, 2016 and May 1, 2016, respectively.

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

	2017		
	Pension plan	**Health benefits**	**Total**
	$[000s]	$[000s]	$[000s]
Fair value of plan assets	**31,150**	**—**	**31,150**
Accrued benefit obligation	**(30,654)**	**(5,380)**	**(36,034)**
Funded status – plan surplus (deficit)	**496**	**(5,380)**	**(4,884)**

	2016		
	Pension plan	**Health benefits**	**Total**
	$[000s]	$[000s]	$[000s]
Fair value of plan assets	28,186	—	28,186
Accrued benefit obligation	(29,144)	(6,633)	(35,777)
Funded status – plan deficit	(958)	(6,633)	(7,591)

11. St. Michael's College Foundation

The University has an economic interest in the Foundation. As at December 31, 2016, the unaudited net assets of the Foundation were approximately $1,980,000 [2015 – $1,983,000].

The University maintains an outstanding accounts receivable balance of $135,000 [2016 – $105,000] for the Foundation as at April 30.

12. Statement of cash flows

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

	2017	2016
	$[000s]	$[000s]
Sources (uses) of cash		
Accounts receivable	**263**	(539)
Prepaid expenses	**(99)**	(31)
Accounts payable and accrued liabilities	**518**	701
Deferred revenue	**270**	154
Deferred contributions	**631**	1,497
	1,583	1,782

13. Bank indebtedness

The University has a revolving bank line of credit of $10,000,000 [2016 – $9,000,000]. As at April 30, 2017, $7,274,000 of the bank line of credit was utilized [2016 – $6,504,000]. The bank indebtedness is collateralized by a general security agreement. The University pays an interest rate of prime less 0.25% per annum. As at April 30, 2017, the effective rate on the University's line of credit was 2.45% [2016 – 2.45%].

14. Demand loans

[a] 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. During the year, the University entered into a new $6,854,000 credit facility for this demand loan, which consists of a demand instalment loan that is collateralized by a general security agreement. The University has the option to utilize one or more interest rate swaps to effectively fix the underlying interest rate on all or a portion of the loan for up to 10 years following the initial draw. As at April 30, 2017, $6,836,000 [2016 – $7,006,000] is outstanding in connection with this facility.

The original demand loan matured in September 2016. From September 2016 until April 2017, the demand loan was financed through a variable interest rate loan of 2.2%.

In April 2017, to reduce the risk of interest rate volatility on the residence loan, the University entered into an interest rate swap agreement whereby, commencing on April 21, 2017, the interest rate on $6,854,000 of the outstanding residence demand loan on that date was effectively fixed at 2.27% for a period of 10 years. As at April 30, 2017, this floating rate of interest was 1.35% [2016 – 3.7%]. The University may repay the loan at any time; however, a settlement amount may be due from or receivable by the University. 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 $156,000 [2016 – $390,000], is recorded in the Statement of Revenue and Expenses.

[b] Subsequent to year-end, the University entered into a $4,000,000 demand instalment loan to finance capital projects, which is collateralized by a general security agreement. The University has the option to utilize one or more interest rate swaps to effectively fix the underlying interest rate on all or a portion of the loan for up to 10 years following the initial draw.

In July 2017, to reduce the risk of interest rate volatility on the loan, the University entered into an interest rate swap agreement whereby, commencing on July 10, 2017, the interest rate on $4,000,000 of the outstanding loan on that date was effectively fixed at 2.68% for a period of 10 years.

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. The most current estimate of the future costs is $500,000, which is included within accounts payable and accrued liabilities and 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 the remediation 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.

16. Government remittances payable

As at April 30, 2017, accounts payable and accrued liabilities include government remittances payable of nil [2016 – nil].

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 fixed-income 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 $32,321 [2016 – $26,000].

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.

18. Commitments and contingencies

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 $.25

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billion per occurrence for property losses and claims in excess of $5,000,000 to a maximum of $50,000,000 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, 2013. As at December 31, 2016, the latest date that financial statements are available, CURIE had a surplus of $84,908,000 for the current underwriting period, of which the University's pro rata share is approximately 0.25%.